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**RE: 2020 Integrated Program Review**

The Public Power Council (PPC) appreciates this opportunity to comment on BPA’s proposals and Initial Publication for the 2020 Integrated Program Review (IPR). PPC is the umbrella trade association representing the interests of all the non-profit, community-owned utilities that are eligible preference customers of BPA. PPC’s members span the full range of municipal, public or people’s utility districts, and electric cooperatives across the Pacific Northwest from large to small and rural to urban.

The wholesale power and transmission services that these utilities purchase at cost are critical to their ability to provide their communities with a reliable, affordable, and clean power supply. Just as Northwest public power relies on BPA to fulfill its promise and obligation to their customers, the operations, maintenance and ongoing investment in the FCRPS is largely supported by public power. As it has been for over 80 years, the success of public power and BPA are intertwined. PPC is committed to this ongoing partnership.

PPC appreciates BPA’s overall commitment to the cost management goals of the 2018-2023 Strategic Plan. PPC raised the alarm over an unsustainable trajectory of cost increases and BPA has responded. We recognize and appreciate the significant investment of leadership and staff towards “bending the cost curve.”

Keeping Power Services’ expenses flat for a second consecutive rate period is a significant accomplishment. We appreciate efforts to limit cost increases in Transmission Services but note that the proposed increase of approximately 5 percent is likely to be notably above the rate of inflation for the BP-20 rate period. While this may be comparable to about a 2.5 percent annual rate, inflation over the last 10 years has averaged below 2 percent and the overall U.S. economy is in the midst of an unprecedented shock that may present deflationary pressures. These considerations are

important both in the context of evaluating success relative to the Strategic Plan, but also in terms of the amount of inflationary pressure that is being “absorbed” in the proposed spending levels.

The economic circumstances driven by COVID-19 further highlight the need for cost control, both in terms of absolute level but also prioritization and value. As you know, essentially every Northwest public power utility is already taking their own significant measures to mitigate the pandemic’s economic consequences, including suspending disconnections, expanding retail customer assistance programs, and freezing planned rate adjustments. While we hope for a speedy economic recovery, we cannot rely on it.

PPC strongly supports a commitment to an “IPR-2” in the winter or early spring of 2021. This will allow for more information regarding the economic outlook for the BP-22 rate period, adjustments for the final CRSO EIS, and potential for further refinements and efficiencies.

### **Program Plan Framework and Strategic Asset Management Plans**

A notable evolution in this IPR proposal is the use of “program plans” to categorize spending. Top down budget targets have been an essential part of cost control success in recent IPR cycles. However, while this approach has been successful in limiting excessive cost inflation and capturing historical underspending, it has limitations. To consolidate gains and make meaningful progress requires additional tools. Deeper evaluation and re-engineering of business structures and processes is needed. PPC sees potential in the program plan framework to better support this end relative to a more siloed, departmental view.

Support for proposed spending levels throughout most of the Initial Publication is derived by reference to “Strategic Asset Management Plans” (SAMPs) for various asset categories. Review of the SAMPs is needed to fully comment on BPA proposed spending levels in most areas. PPC staff requested access to the SAMPs but was informed that in at least some instances the documents in their current form contain commercially-sensitive information.

It is our understanding that BPA is currently preparing versions of the SAMPs that are suitable for public release. Understanding the assumptions in these plans and how they support budget decision making is essential for customers to both evaluate and have confidence in BPA’s proposed spending levels. Upon review of these documents, PPC may have additional comments for consideration in an IPR-2 process.

## **Measuring Progress**

It is a truism that the best strategy or plan is useless without the ability to execute it. Similarly, Peter Drucker's observation that what cannot be measured cannot be improved is no less true for its ubiquity. For these reasons, transparency and regular reporting on asset management and program execution is crucial.

Currently, the Quarterly Business Review and associated technical workshops provide a regular set of reports on financial results. PPC suggests that regular external reporting should more systematically extend beyond dollars spent to what is achieved, benchmarked against the IPR proposal, SAMPs, and industry best practice where available.

To achieve this end, PPC would like to engage with BPA on development of a "balanced scorecard" for each program plan that can be produced on a quarterly basis. This approach will promote transparency and accountability and help clarify the impacts of internal and external forces on program execution.

## **Specific Program Area Comments**

In addition to the foregoing general comments, PPC would like to provide the following comments regarding certain specific program areas.

### *Hydro Asset Management*

PPC continues to support the overall framework and plan for hydro asset management with its focus on economic value and risk mitigation. The planned focus of investment is appropriate. Increased powertrain investment centered on plants with the highest financial risk related to lost generation is both logical and well supported quantitatively.

However, as has been noted in recent years, capital execution levels by the U.S. Army Corps of Engineers ("Corps") and Bureau of Reclamation ("Bureau") has typically been substantially below planned levels. We understand a shift in focus to major powertrain investment may be factor in changing this pattern going forward. PPC looks forward to continuing close work with the BPA and the federal partners to stay on top of this issue.

PPC appreciates the continued evolution in the hydro asset management program. In particular, PPC supports the identified focus areas of "Culture and Communication" and further refinement to the quality and scope of strategy and plans. The ability to produce more granular, plant-specific asset plans appears to have significant value potential. As more and better analysis becomes available, PPC expects that discussion regarding the optimal level and timing of capital investment will be ongoing. Although BPA's analysis shows higher net present value for the "\$300 million" capital plan, we note that this increase is only about one percent above the "\$200 million" plan. In other words, it

appears that a 50% increase in capital expenditures yields just over 1% in additional net present value.

PPC believes that Corps and Bureau O&M efficiency is the crucial next step in advancing the value of the program for customers. We support the efforts underway, such as increased use of multi-crafting and remote operations. We believe the overall proposed O&M levels for hydro asset management provide the opportunity to deliver on the program mission for the BP-22 rate period. Going forward, PPC recommends that different proposed funding levels for O&M be supported with net present value analysis between alternatives.

### *Columbia Generating Station*

PPC appreciates the responsiveness of Energy Northwest to adapt its spending proposal and long-term plan implementation to support BPA's overall cost control objectives during difficult economic times. In recent years Columbia Generating Station (CGS) has performed reliably with steadily improving cost of power. The commitment of Energy Northwest to operational excellence, collaboration, and transparency is yielding tangible value to public power and the region. While we recognize that direct comparisons are difficult, additional presentation of cost benchmarking with similarly situated facilities would give customers more context on the progress towards lower average production costs. PPC looks forward to working with Energy Northwest as a partner to sustain the strong performance of CGS in providing affordable baseload, carbon free power.

### *Fish and Wildlife*

PPC supports the proposed slight reduction in expense levels for fish and wildlife mitigation. However, the overall cost to public power in this area has increased substantially in recent years due to the degradation of the carbon free output of the FCRPS from increased spill levels. In response to a request, BPA stated that the best estimate of the rate pressure from CRSO EIS preferred alternative is about 2%. This would generally be equivalent to about \$40 million in power rates.

PPC supports scientifically based mitigation efforts that are effective from both a biological and cost perspective. However, public power cannot continue to solely bear ever-increasing costs for programs that provide broad regional and social benefits. With the CRSO EIS concluding, it is an opportune time to comprehensively review the effectiveness of all aspects of the program.

PPC is aware that tribal and state agencies have raised concerns regarding the condition and proposed spending levels to support the Lower Snake River Compensation Plan hatcheries owned by the U.S. Fish and Wildlife Service. Prudent investment in these nearly 40-year-old facilities is likely needed to maintain productivity, but it is also

essential that BPA customers pay only their equitable share consistent with statutory requirements. The original capital investment was appropriated by Congress and BPA has no obligation for ongoing capital improvements or replacements. We encourage BPA to work with interested parties ahead of an IPR-2 to determine if any adjustments to funding for the BP-22 rate period are appropriate, recognizing limitations of overall resources.

### *Energy Efficiency*

PPC believes that the level of proposed spending for conservation acquisition both in terms of program support and Energy Efficiency Incentives is reasonable. Public power utilities are committed to cost effective energy efficiency, as demonstrated by massive financial investments and large amounts of savings achieved through the years. These accomplishments and their benefits should be broadly recognized. This IPR proposal continues that commitment.

Unfortunately, the Northwest Power and Conservation Council (NWPCC) has not been able to conclude its regional planning process in time to fully include in this IPR. As new supply curves are developed in the NWPCC process, these can be integrated into the BPA Resource Program analysis to determine the optimal contribution of energy efficiency to meet the Administrator's load obligations in future rate periods. Ultimately, power customers bear all the upside and risk related to energy efficiency, just as with any other resource acquisition. Each utility is uniquely situated, and the overall energy efficiency strategy should continue to provide flexibility and equity while encouraging cost effective investment.

### *Information Technology*

PPC is deeply concerned regarding the substantial changes in budget levels for information technology spending between recent IPR cycles. The proposed spending level in this IPR is over 20% higher than amounts included in the BP-20 rate case. These changes, in combination with inability to execute in BP-20 at planned levels, indicate lack of cohesive and actionable strategy. Information technology is an increasingly crucial enabler of strategic performance, but we do not see clear connection between the proposed program and BPA's strategic goals.

The IPR proposal and Information Technology presentation lay out a snapshot of BPA's current infrastructure in this area and a spending level to support it. It is not clear whether this is the right information technology portfolio to support BPA's strategic objectives going forward, and if not what the specific plan might be to get there. Further, although various desired outcomes for "IT as a Customer Service Organization" are listed, no specific metrics for measuring success are provided.

PPC looks forward to careful review of the SAMP and operating plans for Information Technology and to working closely with the agency to make sure this crucial function is on a track for success – with a balanced scorecard to evaluate progress. Benchmarking with other utility organizations regarding staffing levels and systems would be extremely valuable in this regard. Although BPA may have some unique constraints as a federal agency, its overall information system needs are not so different from other large utilities.

### *Transmission Asset Management*

BPA’s transmission system is the high-voltage backbone of the Pacific Northwest and is crucial to the reliable grid operation of the broader West. We recognize the need to invest in aging infrastructure. Towards this end, PPC is encouraged to see evolution towards standardization of asset management standards around the internationally recognized ISO 55000 framework. PPC also believes the “Criticality, Health, and Risk” (CHR) framework for risk-based planning has potential to improve investment prioritization.

PPC has significant ongoing concerns regarding its ability to execute on the proposed capital program and fully meet the goals of the 2018-2023 Strategic Plan. The Secondary Capacity Model should be an important tool to help resolve resource bottlenecks. BPA must work with customers to create clear benchmarks to evaluate progress and stay on track. BPA and customers cannot afford another “reset” of practices. We look forward to working together to identify components of a balanced scorecard to support careful evaluation of progress and in-flight course correction.

In addition to execution of the planned program, PPC is interested in continuation of the efforts to benchmark costs of different types of work and how these results compare to other utilities. BPA has a unique transmission system, but most components are also installed, operated and maintained by other regional utilities. Similar to work done in hydro asset management, there is a significant opportunity to compare costs for different categories of transmission system assets and identify best practices. This is another area where PPC hopes to partner closely with BPA.

We would also like to offer specific comment on the potential investment in a new control center facility. PPC recognizes the importance of a modern and functional control center, but significantly more work and transparency are needed to justify a potential investment of this magnitude. This includes clear comparison of alternatives, benchmarking costs, tight integration with broader information technology and grid modernization strategy, and security considerations.

### *Grid Modernization*

PPC appreciates the evolution of this Key Strategic Initiative in the past several years. Although the general need was apparent, initially a lack of details and transparency was frustrating for customers. Through execution of the initiative the agency has developed significant capabilities in project implementation and controls that should be applied to other programs.

### *Northwest Power and Conservation Council*

The Northwest Power and Conservation Council (NWPCC) budget should be kept flat in nominal terms from FY 2019 actuals for the BP-22 rate period. The proposed spending levels are nearly five times the base funding level contemplated in the Northwest Power Act. Going forward, PPC supports a comprehensive review of whether the current model of NWPCC operations is best to fulfill its statutory purposes and whether the Administrator should continue to exercise discretion in granting a higher level of funding each year. For example, the 2021 Power Plan currently under development will have taken over 5 years of development at a cost of \$25-30 million for ratepayers. Benchmarking of this cost, value, timeframe, and scope of work relative to integrated resource planning efforts by other entities would be valuable information and consistent with PPC's recommendations for other program areas.

### **Conclusion**

Thank you for your consideration of these comments. PPC appreciates the efforts of BPA leadership and staff to continue investment in the crucial assets and operations of the FCRPS. We look forward to continued partnership to ensure a reliable, clean, and affordable power supply for the Northwest communities and businesses that we all ultimately serve.

Sincerely,



Scott Simms

Executive Director, Public Power Council

Cc: BPA Executive Team