To Customers, Constituents, Tribes and Stakeholders:

The Bonneville Power Administration has completed its 2015 Integrated Program Review and has decided to proceed with moving the Energy Efficiency (EE) capital program to expense in the fiscal year 2016-2017 rate period. Doing so will reduce long-term costs and power rates by avoiding an estimated $1.3 billion in additional debt to fund conservation programs through 2028, while maintaining BPA's strong commitment to energy efficiency. In making this decision, we considered extensive customer and stakeholder feedback.

As you may know, BPA is facing significant pressures on its long-term cost structure. In addition to the effect of low natural gas prices on wholesale electricity prices, the cost of maintaining aging federal assets, and significant ongoing energy industry changes, BPA continues to increase its total outstanding debt and related debt service costs. It is imperative that we start taking actions now to maintain BPA's long-term cost competitiveness and financial sustainability. Moving the EE capital program to expense is a step toward achieving these goals.

This decision, which is detailed in a close-out report on BPA's IPR web page, upholds BPA's commitment to the Energy Efficiency program features defined in the Post-2011 Review process. In addition, because BPA has decided to transition EE's capital program to expense, BPA will no longer need to proceed with third-party financing for energy efficiency or with conservation billing credits.

If BPA were to transition EE from capital to expense in one rate period without reducing costs or using debt management tools, BP-16 Power rates would have increased by slightly more than 4 percentage points above the BP-16 initial proposal. To mitigate that effect, BPA will offset an average of $20 million per year in the Power revenue requirement through reductions in BPA spending levels. These include reductions of $9.9 million in Power Services (including staffing), undistributed reductions of $2.7 million in Agency Services that support Power Services, and $7.4 million per year in adjustments to the EE program (previously capitalized) that are consistent with achieving the interim EE acquisition goals.

To fully eliminate the BP-16 Power rate effect associated with the EE capital-to-expense transition, BPA will use debt management actions. These actions include refinancing $757 million of Energy Northwest bonds not previously included in the refinancing of regional cooperation debt. BPA will use $260 million of the amount freed up in the BPA fund as a result of the extension to smooth the rate transition to expense in fiscal years 2016-2019. The remainder of the freed-up funds ($497 million) will be used to pay off high-interest federal debt earlier than expected for a savings of nearly $21 million through 2028, including $1.5 million a year in interest savings during fiscal years 2016-2017. These debt management actions would not have been possible without the cooperation of the Energy Northwest Executive Board and its approval for extending Energy Northwest regional cooperation debt.

Moving the EE funding from capital to expense is an immediate action to reduce our total long-term debt, but it is not the only action we are taking to address our long-term financial health. With an eye to BPA being the low-cost energy provider of choice when new contracts are offered in 2028, BPA is developing a strategic framework that balances its multiple objectives while meeting its responsibilities as a federal power marketer and transmission provider. We are exploring new approaches to capital portfolio management, cost management and budgeting processes. We are also refreshing our long-term rate forecasting capability to enable better long-term planning and decision-making. These types of actions will be ongoing as BPA places a renewed focus on its long-term cost structure and service delivery model.

And finally, I want to thank all who participated in both the IPR and IPR2 processes. While important decisions were made during these processes, this is just the beginning of what I believe will be a challenging, multi-year journey to determine what we as a region can do to assure BPA's long-term viability and ability to best serve the Northwest for decades to come.

Sincerely,

/s/ Elliot E. Mainzer

Elliot E. Mainzer
Administrator and Chief Executive Officer

Integrated Program Review 2

Final Close-out Report

May 2015

1. Introduction

In January of 2015, customers asked the BPA administrator to hold a follow-up to the Integrated Program Review process (IPR2) to look at options for shifting the Energy Efficiency (EE) capital program to expense starting in fiscal years 2016-2017. In general, customers were concerned over the increase in capital costs and its impact on future rates. BPA and its customers also recognized that a move from capital to expense would result in rate impacts in the near term. BPA held an IPR2 workshop on February 24th, focused on several options for making the capital-to-expense transition, including a scenario that also involved extending Energy Northwest bonds to mitigate and smooth rate effects over time. While these scenarios were designed to avoid the full effect of shifting the EE capital program all at once, none of these scenarios eliminated the 2016-2017 rate impacts.

1.1. What BPA heard

In response to the IPR2 workshop, BPA received about 30 comments from customers and constituent groups.

Customer Comments

Most customers and customer groups supported a move to expense over two rate periods with the caveat that BPA find offsetting cost reductions to mitigate the rate effect. In particular, customers expressed interest in seeing BPA reduce the Power revenue requirement, through an undistributed reduction, by amounts commensurate with 100 percent of historic under-spending. Customers also asked that BPA adjust EE funding levels downward by changing various assumptions about the amount of conservation that may need to be achieved under the upcoming 7th Power Plan and the sources of the energy savings.

Constituent Comments

Constituent organizations opposed a transition to expense, expressing concern about downward pressure on energy efficiency budgets and BPA's support for EE programs. A particular point of emphasis was concern about modifying utility self-funding assumptions or making any other adjustments that could put achieving the conservation targets at risk.

1.2. What BPA did

In response to customer and constituent comments, BPA continued to examine whether it makes sense to move the EE capital program to expense and has concluded that it does. By moving to expense, BPA can avoid issuing an estimated $1.3 billion in additional debt to fund conservation programs through 2028 and avoid $491 million in related interest expenses. This will eliminate the need to implement a third-party financing program for EE to preserve scarce U.S. Treasury borrowing authority.

BPA also continued to look for ways to minimize the rate effect brought about by such a transition. In response to customer comments, BPA re-examined whether it was reasonable to take on additional risk or cut other forecasted costs. BPA identified $20 million per year in reduced spending levels that could be used to offset the transition. While these additional cost reductions increase overall program delivery risk for Power and Agency Services, BPA is prepared to work aggressively to manage to the reduced funding levels. In addition, BPA considered debt management actions that could result in savings that would help mitigate the remainder of the BP-16 rate effect and help smooth the longer-term transition costs. Specifically, BPA believes there is a greater long-term benefit from using the savings freed up from extending additional regional cooperation debt to mitigate the transition to expense compared to simply accelerating the repayment of other high interest debt earlier than planned.

While most customers supported a two-rate-period transition, BPA believes that the timing is right to take on the capital-to-expense transition in one rate period. The rate effect and financial tools needed to move to expense in one rate period are similar to a two-rate-period transition. A one-rate-period transition also avoids the administrative burden and implementation challenges that could arise from a split (capital and expense) Energy Efficiency Incentive (EEI) budget. With the transition to expense, BPA will no longer proceed with third-party financing or conservation billing credits. BPA's recent Conservation Billing Credits Program was based on the use of capital to calculate billing credits. That calculation does not operate using expense; therefore, BPA has decided to withdraw the program. Similarly, third-party financing was also based on using third-party access to capital as an alternative to using BPA's U.S. Treasury borrowing authority.

2. Changes from the 2014 CIR and IPR Forecasts

2.1. Capital Changes

In moving Energy Efficiency's capital programs to expense, BPA will be reducing forecasted FY 2016-2017 capital spending levels by the amounts shown in Figure 1 below.

FIGURE 1. CAPITAL ADJUSTMENTS

	FY 2016			FY 2017		
($ in thousands)	Final IPR	Final IPR2	Delta	Final IPR	Final IPR2	Delta
Energy Efficiency	94,800	0	-94,800	97,600	0	-97,600

Note: These original Energy Efficiency capital amounts are reduced when represented as expense amounts as explained in the Energy Efficiency "Capital" Programs section below.

2.2. Expense Adjustments

To make the transition to expense, BPA's decision includes approximately $20 million per year in forecasted spending level reductions from across Power Services and Agency Services, including modest adjustments to the Energy Efficiency programs that were formerly capitalized. Combined, these adjustments bring Power's total IPR costs and EE Capital Investment Review (CIR) spending levels down 1.3 percent below FY 2014-2015 levels. It also includes an average annual reduction of $2.7 million per year from Agency Services that will benefit Transmission rates.

FIGURE 2. EXPENSE ADJUSTMENTS IMPACTING POWER SERVICES

	2016			2017		
($ in thousands)	Final IPR	Final IPR2	Delta	Final IPR	Final IPR2	Delta
Costs Described in IPR						
Columbia Generating Station	262,948	262,948	-	322,473	322,473	-
Bureau of Reclamation	156,818	156,818	-	158,121	158,121	-
Corps of Engineers	243,885	243,885	-	250,981	250,981	-
Renewables	40,987	40,987	-	41,641	41,641	-
Energy Efficiency*	49,349	136,649	87,300	41,605	131,665	90,060
Power Non-Generation Operations	97,018	96,542	(476)	99,836	99,836	-
Fish & Wildlife, Lower Snake River Comp Plan	299,303	299,303	-	306,949	306,949	-
NW Planning & Conservation Council	11,236	11,236	-	11,446	11,446	-
Power Internal Support	75,413	72,281	(3,132)	76,854	74,646	(2,208)
Undistributed Reduction	(20,000)	(29,700)	(9,700)	(20,000)	(29,700)	(9,700)
Costs Described in IPR Total	1,216,956	1,290,948	73,992	1,289,906	1,368,058	78,152

* Average annual adjustments to the BPA-managed component ($2.4 million) and to the EEI budget ($5 million) reduce the original Energy Efficiency capital to expense adjustments from $94.8 million and $97.6 million to $87.3 million and $90.1 million in FY 2016 and FY 2017, respectively. See – Energy Efficiency "Capital" Programs – section below for more details.

FIGURE 3. SOURCES OF $20 MILLION IN REDUCTIONS FOR POWER SERVICES

($ in millions)	FY 2016/17 Average Final IPR2
Reduction Categories	
Power Programs and Internal Costs	
Staffing	0.2
Undistributed Reduction	9.7
Subtotal	9.9
Agency Services Internal Costs	
Undistributed Reduction and Staffing Costs	2.7
Energy Efficiency Program Costs (Previously Capital)	
BPA-managed Programs	2.4
Energy Efficiency Incentives	5.0
Subtotal	7.4
TOTAL	**20.0**

Power Programs and Internal Costs

BPA identified $9.9 million in overall reductions to Power Services. This reduction is largely associated with increasing BPA's undistributed reduction to 100 percent of historic average under-spending and with updating BPA's assumption about the speed with which BPA will return to normal staffing levels in FY 2016. BPA recognizes that it is risky to assume that historic levels of under-spending will continue in light of changes to the IPR baseline and BPA's within-year budgeting processes. Therefore, BPA plans to distribute much of this new reduction across Power Services at Start of Year, FY 2016.

Agency Services

BPA also decided to change Agency Services assumptions related to staffing ramp-ups and their undistributed reduction. This results in an overall forecasted reduction to Agency Services of $6.2 million in FY 2016 and $4.6 million in FY 2017. On average, $2.7 million per year will benefit Power and $2.7 million per year will benefit Transmission.

Energy Efficiency "Capital" Programs

BPA remains committed to meeting the interim conservation acquisition goals that were the basis for the FY 2016-2017 IPR funding levels. While customers asked that BPA change assumptions regarding those goals, BPA does not have enough information about potential 7th Power Plan targets to change funding levels at this time. Once the 7th Power Plan is complete, BPA will evaluate the adequacy of its funding levels and make the appropriate adjustments going forward. Similarly, BPA does not believe there has yet been an adequate utility commitment demonstrated to support higher self-funding by its utility customers to modify the utility self-funding assumption. That being said, BPA is open to continuing dialogue with customers, the Council and constituents about how best to support the regional energy efficiency achievements.

Energy Efficiency did re-evaluate its CIR forecasted levels in light of solidified interim targets and BPA's plans for achieving those savings goals. What we found is that BPA could make downward adjustments to both the BPA-managed and Energy Efficiency Incentive (EEI) components of the budget while still having a high likelihood of achieving its goals. Specifically, BPA was able to refine and reassess specific needs for the BPA-managed capital budget for the FY 2016-17 rate period. Since the CIR, BPA has a better understanding of the timeline for ramping down the Energy Smart Grocer program, and a more accurate projection of the process to establish and execute on a replacement commercial program. This clearer picture of our contracting needs allowed BPA to eliminate $2.4 million per year from the BPA-managed budget. BPA was also able to refine our calculations of the cost to support our Energy Smart Reserved Power (ESRP) program. In BPA's initial IPR2 presentation, all incentive funds (including those delivered in the ESRP program) were calculated at BPA's average portfolio cost per kilowatt-hour. The ESRP program is expected to deliver 3 average megawatts in fiscal years 2016 and 2017 at a substantially lower cost than our overall portfolio cost. Accounting for this cost allows BPA to more accurately reflect the resources required to support efficiency incentives (inclusive of EEI and ESRP) and reduce the EEI budget by $5 million per year.

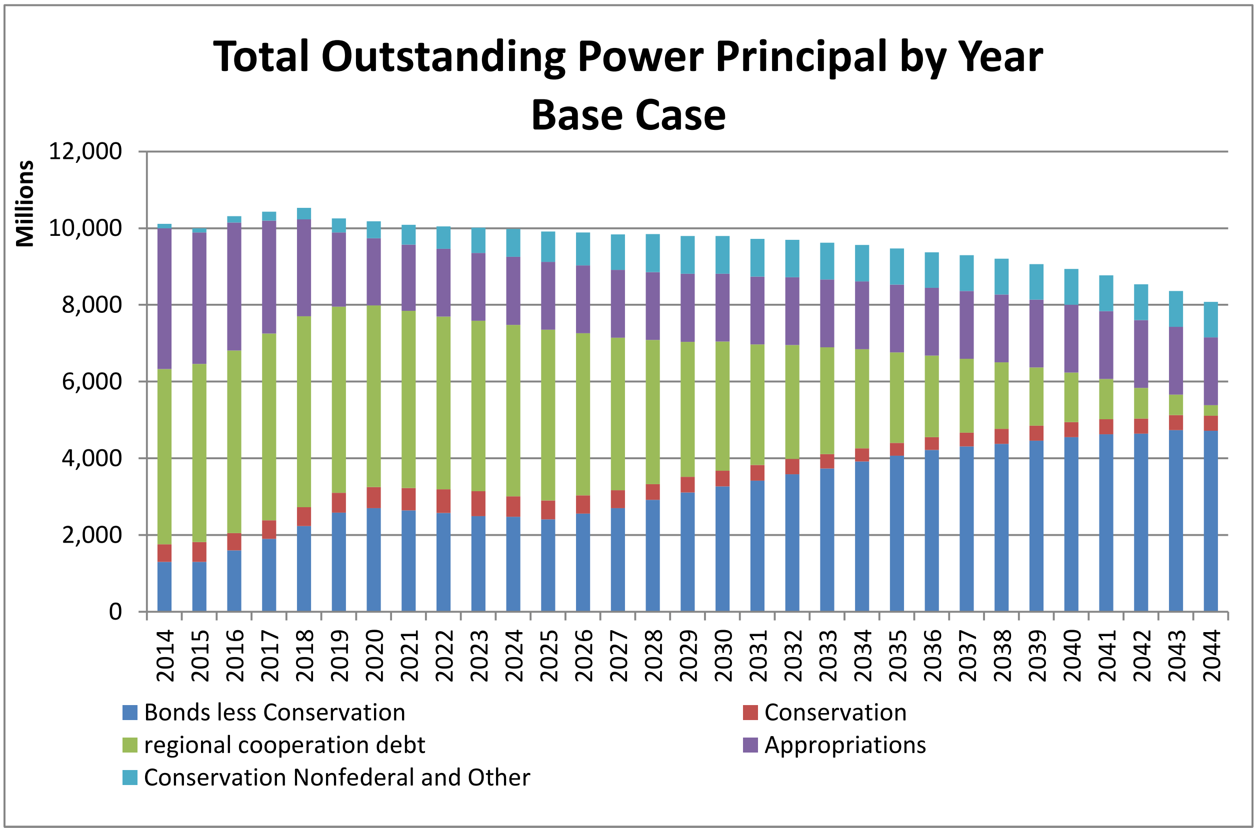
3. Debt Management

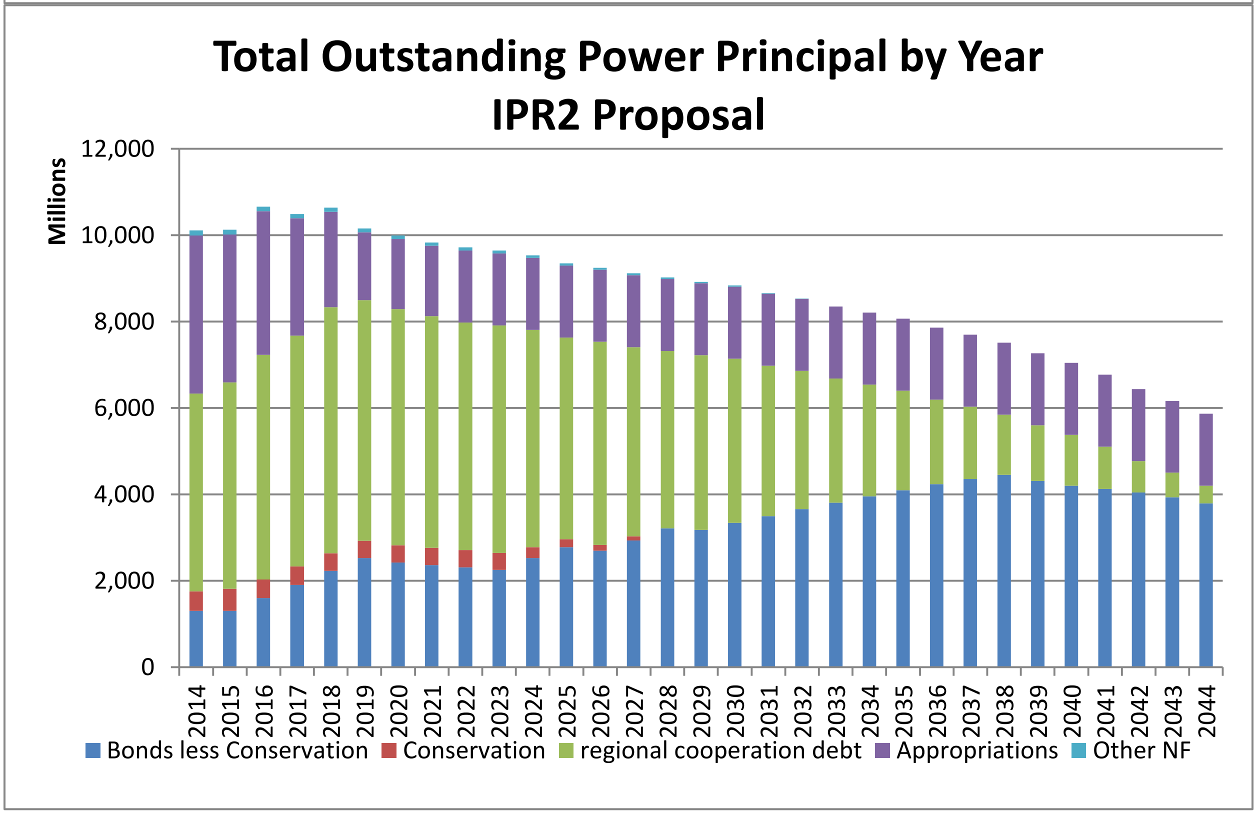
In addition to reductions in program funding levels, BPA is planning to undertake a series of debt management actions. Specifically, BPA is working with Energy Northwest to add $757 million in additional Energy Northwest bonds to the regional cooperation debt previously considered available for refinancing purposes. By refinancing these bonds, BPA can use the funds freed up for two purposes. $260 million of the funds freed up will be used to offset increased costs from expensing EE in BP-16 and smooth the transition in subsequent rate periods. This enables BPA to avoid issuing an estimated $1.3 billion in additional debt to fund conservation programs and save approximately $491 million in interest expense through 2028.

BPA plans to use the remaining funds freed up ($497 million) from refinancing to pay down higher interest-rate federal debt faster than planned under the regional cooperation debt transactions approved last year. This will result in approximately $21 million in additional interest savings over time, including $1.5 million per year in BP-16.

Combined, these two approaches to using the dollars freed up from refinancing would save an estimated $512 million in interest expense and reduce BPA's total debt outstanding over time.

FIGURES 4-5: TOTAL OUTSTANDING POWER PRINCIPAL BEFORE AND AFTER DEBT MANAGEMENT ACTIONS





4. Next Steps

Moving EE funding from capital to expense is an immediate action we can take to reduce BPA's total long-term debt, but it is not the only action we are considering to address BPA's long-term competitiveness. Over the coming months, BPA will begin engaging customers, sovereigns and stakeholders in developing and/or implementing actions to address the bigger picture. Some of these actions include:

- working on our long-term rate forecasting capability that will better enable long-term decision-making;
- considering new approaches to capital portfolio management, cost management and budgeting processes; and
- evaluating our long-term service-delivery models, including our approach to supporting regional energy efficiency.

These types of actions will be ongoing as BPA takes a renewed focus on its long-term cost structure.

5. Disclosures

Future Adjustments

BPA conducts the discretionary IPR2 process in order to solicit and consider regional input on BPA's financial priorities for the upcoming rate period. Through this collaborative process, BPA and regional parties can have a meaningful dialogue regarding BPA's program spending levels. At the conclusion of the IPR2 process, BPA issues a close-out letter and report in which BPA describes how its program funding and spending projections were informed by the parties' comments. The projected program levels described in the close-out letter and report reflect the administrator's best estimate regarding the appropriate spending levels to assume in setting rates.

The close-out of the IPR2 process does not mark the consummation of BPA's decision-making process on budgetary levels because further adjustments to BPA's spending projections may occur after the conclusion of the IPR2. While the IPR2 Close-out Letter and Report reflect the administrator's best estimate regarding the appropriate spending levels to assume in setting rates, these levels may be further modified by subsequent events that lead to changing priorities or by subsequent executive or congressional actions. Thus, while the IPR2 serves the important role of receiving regional input on the priorities for BPA spending, the resulting final program levels are only recommendations that may be subsequently modified.

Further, while BPA may intend to fund a program at a particular level during the next rate period, future events may change BPA's spending projections. These changes may result in increases or decreases to the spending projections contained in the IPR2 Close-out Report. In short, the end of the IPR2 process does not mark the end of BPA's decision-making process for establishing future budgetary levels. BPA will seek to share adjustments to spending projections contained in the IPR2 at Quarterly Business Reviews.

Financial Disclosure

FY 2015-2017 Final IPR spending levels have been made publicly available by BPA on Oct. 2, 2014, and reflect information not reported in BPA financial statements.

FY 2015-2017 Final IPR2 spending levels have been made publicly available by BPA on May 1, 2015, and reflect information not reported in BPA financial statements.