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Oregon

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Oregon

February 26, 2009

## MEMORANDUM

**TO:** Fish and Wildlife Committee members

**FROM:** Tony Grover

**SUBJECT:** Discussion of Bonneville Power Administration's draft budget white paper dated 17 November 2008

At the request of BPA's Vice President of Environment, Fish and Wildlife, Greg Delwiche, Council members have reviewed BPA's draft budget white paper dated 17 November 2008. The fish and wildlife committee members will discuss the white paper with Mr. Delwiche and Council staff before finalizing a Council response to the white paper.

## *11.17.08 Draft*

In reply refer to: KE-4

Chairman Bill Booth  
Northwest Power and Conservation Council  
851 S.W. Sixth Avenue, Suite 1100  
Portland, OR 97204-1348

Dear Chairman Booth:

In 2003 and 2004, Bonneville Power Administration (BPA) issued two pivotal letters which outlined principles for managing the Fish and Wildlife Program's (Program) expense and capital budgets through 2006. The purpose of this letter and enclosure is to seek your feedback on an updated set of budget management principles and procedures for 2009-2011. These draft principles are outlined in Enclosure A.

For the current rate period (FY2007-2009) and prior to the Columbia Basin Fish Accords (Accords) and the release of NOAA Fisheries Federal Columbia River Power System (FCRPS) Biological Opinion (BiOp) in May 2008, BPA had been managing the Program expense spending to not exceed an average of \$143 million per year and capital spending of up to \$36 million per year. Using the Council's FY07-09 funding recommendations and BPA's final decision, we established planning budgets for FY07-09<sup>1</sup> consistent with these spending targets.

With the signing of the Accords and the release of the 2008 BiOp, BPA has proposed increased Program budgets for FY2009-2011. The increases will allow the Agency to meet Accord and BiOp commitments in addition to, and while sustaining other Program efforts at current levels. In order to meet the specific outcomes associated with these commitments, BPA plans to manage the Accord and BiOp components using separate sets of accounting principles. These accounting principles are intended to clarify financial management practices for Accord and BiOp implementation. The non-Accord and non-BiOp portion of the existing Program will continue to be generally guided using the principles established during the prior rate period and as outlined in BPA's 2003 letter on the expense budget. These two sets of principles, which are intended to guide management of the expense portion of the Program, are explained in Enclosure A.

In general, BPA expects to manage spending<sup>2</sup> for the F&W Program to not exceed \$200 million in FY09, \$230 million in FY10, and \$236 million in FY11. Under these draft principles, BPA would manage the budget in three component types with an FY09 spending target for each, as follows: 1) non-Accord/non-BiOp projects – approximately \$42 million, 2) FCRPS BiOp<sup>3</sup> (non-Accord) projects – approximately \$85 million, and 3) Accord projects (with 7 sub-allocations) – approximately \$61 million.

Given historical differences between planning budgets and actual spending, and the time necessary to ramp-up new Accord and BiOp work, Enclosure A also explains how we plan to manage planning budgets to ensure actual spending is within the budget forecast for rate cases.

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<sup>1</sup> See: [http://www.efw.bpa.gov/IntegratedFWP/docs/2007/FY07-09\\_Decision\\_Tables.pdf](http://www.efw.bpa.gov/IntegratedFWP/docs/2007/FY07-09_Decision_Tables.pdf) for expense budget decisions.

<sup>2</sup> Note: this paragraph is about spending targets which are different than planning budgets (See table 2)

<sup>3</sup> Does not include Libby, Willamette or other BiOps.

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The planning budget levels are higher than the spending forecast for rate cases for two reasons. First, planning budgets were set to reflect the fact that spending on “existing projects” has historically averaged about 93 percent of project budgets. Second, while BPA expects to contract for new BiOp and Accord work at their full '09 budgets, not all of these dollars will be spent during the FY because some projects are not yet in place. This lag in spending is described in the Accords and is commonly referred to as the ramp-up.

In the transition into the FY07-09 rate period, BPA agreed to “carryover” unspent funds from the previous rate period to avoid creating a ‘use it or lose it’ incentive. Moving forward, BPA does not plan to carryover unspent funds to the next rate period for the non-Accord portion of the Program. Instead, BPA has set higher planning budgets to account for an expected planning to expenditure discrepancy of 7 percent. Planning budgets for each FY will be re-evaluated to narrow this discrepancy where possible. To allow for the completion of planned, on-the-ground work that was delayed for reasons beyond the sponsor’s control, we will include a \$1.0 million reschedule placeholder in the FY10 and 11 planning budgets to facilitate rescheduling of work as currently managed by BOG. We believe this approach places emphasis on timely planning, review, and implementation of projects to enable the work to be performed, and de-emphasizes spending not directly related to accomplishing planned work.

For the Accord portion of the program, BPA is committed to spending the full amount of the '09-'17 planning budgets. Should new project ramp up in '09 progress more slowly than hoped, those dollars will be available to the Accord parties in subsequent years consistent with the accounting principles for the Accords, and so long as the resulting entity-level annual budget does not exceed 120 percent of the original planning budget (See section III of Enclosure A).

Having separate budgets and management practices for different components of the Program presents some implementation and accounting challenges, but they are consistent with the nature of our recent commitments. We look forward to discussing this draft budget management document with you at the next Council meeting and receiving your feedback on it.

Sincerely,

Gregory K Delwiche  
Vice President, Environment, Fish and Wildlife

Enclosure A

**Fish and Wildlife Program Budget Management White Paper  
11/17/08 Draft**

**I. Introduction**

For nearly 20 years, the Bonneville Power Administration (BPA) has worked to manage its commitments to resident fish, wildlife, and anadromous fish (ESA-listed and non-listed) through an integrated Columbia River Basin Fish and Wildlife Program (the Program). While BPA continues to believe in the benefits of integrating work at the geographic scale, fulfilling BPA’s commitments in the Columbia Basin Fish Accords (Accords) and the 2008 Federal Columbia River Power System (FCRPS) Biological Opinion (BiOp) requires that the Agency manage Program implementation within three component types: 1) Uncategorized (non-Accord & non-BiOp), 2) Accord, and 3) FCRPS BiOp (non-Accord). As illustrated in Table 1, and described in more detail below, some aspects of project implementation and budget management will differ by component type.

<b>Table 1. Summary of Management by Component Type</b>			
	<b>Uncategorized (Non-Accord &amp; Non-BiOp)</b>	<b>FCRPS BiOp (Non-Accord)</b>	<b>Accord (preliminary)</b>
<b>Carryover and Reschedules</b>	A \$1.0m reschedule placeholder for non-BiOp and non-Accord projects will be established to selectively fund reschedules and projects that did not get underway for reasons beyond the control of the project implementer.  No explicit carryover of unspent funds.	A \$2.0m reschedule placeholder for FCRPS BiOp projects will be established to selectively fund reschedules and projects that did not get underway for reasons beyond the control of the project implementer.  No explicit carryover of unspent funds.  BPA may also use unspent BiOp funds for additional BiOp work.	Accord project and budget timing may be adjusted within the '09-'17 period so long as the Entity’s project budget does not exceed 120% of its original budget in any particular planning year.
<b>Within year budget adjustments and preschedules</b>	To increase a project’s budget from the SOY budget, the existing BOG process is used within the \$1.0 m non-BiOp non-Accord within year placeholder (over and above the reschedule placeholder).	To increase a project’s budget from the SOY budget (which includes funds to meet expanded BiOp commitments), the existing BOG process is used within the \$2.0 m BiOp within year placeholder (over and above the BiOp reschedule placeholder).	Accord budget adjustments are managed directly with the Entity subject to the 120% annual entity budget limitation and 10-year entity budget. Budget adjustments information will be provided to BOG.

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<b>Redistribution of funds between component types</b>	No.	No.	No.
<b>New Work</b>	New non-BiOp and Non-Accord work will be identified through collaboration with the Council. Funding for this work will come from within the non-BiOp and non-Accord budget component.	New work was identified in the BiOp and included with budgets in the '09 SOY. Necessary project expansions (within the existing project scope) and new projects with pre-identified sponsors will move forward consistent with the new Accord work. Other new BiOp work (a change in scope or new work/projects that do not have an identified sponsor) will be developed in coordination with the Council with processes TBD	New work was identified with budgets in the Accords. Narratives for this work will be developed and attached in Pisces and forwarded to the ISRP. Work is available for contracting at this point. Response to ISRP comments will be documented.

Further, each component will have a separate planning budget. (See Table 2 for '09.) For the Accord component, budgets will be further broken down by Accord entity.

<b>Program Components by Component Type</b>	<b>'09 Project-Year Budgets<sup>a</sup></b>
<b>Uncategorized (Non-Accord &amp; Non-FCRPS BiOp)</b>	<b>45</b>
<i>Uncategorized within year placeholder</i>	1
<b>Columbia Basin Fish Accords<sup>b</sup> (Accord)</b>	<b>76</b>
<i>Columbia River Intertribal Fish Commission</i>	10
<i>Confederated Tribes of the Warm Springs</i>	5
<i>Confederated Tribes and Bands of the Yakama Nation</i>	27
<i>Confederated Tribes of the Umatilla Indian Reservation</i>	18
<i>Confederated Tribes of the Colville Reservation</i>	10
<i>State of Idaho</i>	6
<i>State of Montana</i>	0
<b>FCRPS Bi-Op (non-Accord)</b>	<b>94</b>
<i>BiOp within year placeholder</i>	2
<b>Expense Budgets Total:</b>	<b>215</b>

<sup>a</sup> Project-Year budgets are based on project's '09 SOY budget posted July 2008, some of these budgets are already out of date as project budgets change on a regular basis.  
<sup>b</sup> Entire project totals are included even if the entire amount is not MOA or Bi-Op

The above figures in Table 2 are in "Planning Budget" terms. Some adjustments and additions are necessary to translate the above Planning Budget table to anticipated actual spending. Among these adjustments are assumptions that BPA uses to adjust for the effects of contract

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timing<sup>4</sup>, ramp-up assumptions for new projects,<sup>5</sup> and planning-to-actual differences.<sup>6</sup> In addition, the above break-out does not include BPA overhead, or potential pre-capitalization expense budgets for projects that are “classified” as capital.

For these reasons, the planning budgets in Table 2 are not identical to forecasted Rate Case program levels, which again, are estimates of actual spending.

### II. Component Type 1: Uncategorized (Non-Accord / Non-BiOp)

The uncategorized (non-BiOp and non-Accord) component of the Program continues to be diverse. It includes projects that benefit anadromous fish, resident fish, and wildlife in a broad array of geographic areas. It includes shorter-term projects as well as those that support longer-term commitments (e.g., to maintain BPA acquired lands, or support the Libby, Willamette and other BiOps). BPA expects to generally continue working with the Council to manage implementation of this component of the Program in a manner similar to the past several years.

**Budgeting**– Over the last several years, BPA has found that actual Program spending has averaged about 93% of planning budgets. For this reason, BPA develops planning budgets that sum to an amount greater than what we expect to actually spend (e.g., amount in rates). For FY09, the planning budget for the uncategorized projects is approximately \$46 million. This planning budget should result in actual spending of approximately \$42 million.

**Carryover and Reschedules**– In the transition into the FY07-09 rate period, BPA agreed to “carryover” unspent program expense budget dollars from the previous rate period to avoid creating a ‘use it or lose it’ incentive. Moving forward, BPA does not plan to carryover unspent funds to the next rate period for the non-Accord portion of the Program. Instead, BPA has set higher planning budgets to account for an expected planning to expenditure discrepancy of ~7%. Planning budgets for each FY will be re-evaluated to narrow this discrepancy where possible. However, to allow for the completion of planned, on-the-ground work that was delayed for reasons beyond the sponsor’s control, we will include a \$1.0 million reschedule placeholder<sup>7</sup> in the FY10 and 11 planning budgets to facilitate rescheduling of work as currently managed by BOG. We believe this approach places emphasis on timely planning, review, and implementation of projects to enable the work to be performed, and de-emphasizes spending not directly related to accomplishing planned work.

**Within year adjustments and preschedules** – For the Uncategorized component of the Program, BPA will continue to rely on the BOG process to evaluate and track requests to change project budgets and/or scope from those posted at the start of the fiscal year. Changes will be managed

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<sup>4</sup> Because many projects do not start on Oct. 1, any funding increases between project years do not fully hit the books in the first year.

<sup>5</sup> Due to the time it takes a new project to get in place and the fact that the Accords were signed mid-year, the Accords specify that only about 33% of new '08 funds and 75% of new '09 funds will be spent during the '08 and '09 fiscal years. These estimates were based on past experience during 1996-2001 and 2002-2006.

<sup>6</sup> Based on our experience over the past several years, actual spending tends to be about 93% of planning budgets.

<sup>7</sup> The \$1m figure reflects a best estimate based on past reschedule requests.

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within a \$1 million /yr placeholder<sup>8</sup> for within-year adjustments in '09 -'11 (in addition to reschedule placeholder). As in the past, project implementers may request additional funding as unforeseen costs or actions arise. The BOG will review all requests and determine next steps.

- **Emergency requests** are forwarded to the BOG Management Group (consists of F&W Directors for Council, BPA and CBFWA) for an immediate decision. They have the discretion to defer to the quarterly process.
- **Requests within the scope of the recommended project**, within 10 percent of the yearly approved budget, and less than \$75,000, can be made at Bonneville's discretion. This threshold would only be applied once for a project during the funding recommendation cycle (rate period).
- **Quarterly Process:** All other requests (i.e., scope changes and new requests), after completing the necessary reviews as part of the existing quarterly review process, will be presented to the Council's Fish and Wildlife Committee for recommendation to the full Council at the next Council meeting. The Council will then make a recommendation to BPA regarding funding the requests. For example, a request made in October, November or December is reviewed at Council's F&W committee in January and full Council for a recommendation to BPA in February. BPA will then make a final decision taking into account the Council recommendation.

**2010 budgets** – Over the last several months, the Council has been working to develop a new categorical/geographical review process for existing projects. Most of these reviews will not be completed prior to 2010 contracting (e.g., June 2009 for projects whose new contracts go into effect on October 1). To ensure work continues taking place during these review processes, BPA proposes to develop SOY budgets in a manner similar to what we have done for FY08 and FY09. With the exception of some projects that are on a trend toward closure, BPA would propose to develop a draft SOY budget based on project's '09 budgets plus a 2.5% inflation adjustment. Once we have a draft SOY budget for 2010 (probably in the spring of FY09), we will coordinate it with Council and staff before posting.

**New Projects** – Through the Accords and BiOp, BPA has significantly increased the Fish and Wildlife Program budget to mitigate the impacts of the FCRPS on anadromous fish, resident fish, and wildlife. While BPA has committed the additional funding to Accord entities and to BiOp projects, flexibility remains for undertaking new work. The flexibility for initiating new work is expected to come from two sources: (1) the completion of existing projects, and (2) more efficient implementation of longer-term type projects.<sup>9</sup> Once this funding is freed up through project closures or budget adjustments, BPA would work with the Council in developing targeted solicitations to select project sponsors for new work using a competitive process.

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<sup>8</sup> Over the last several years a \$2m placeholder has been adequate for the entire \$143m Program, thus we estimate that \$1m should be sufficient for a ~\$40m component of the Program.

<sup>9</sup> Specifically, BPA anticipates that categorical review of RM&E, data management, and coordination will result in focus that addresses specific priorities related to FCRPS mitigation which will result in both improved effectiveness as well as opportunity to shift funds from this category of work to new, on-the-ground work providing direct benefit to fish and wildlife.

### **III. Component Type 2: the Columbia River Basin Fish Accords (Not Final – Under discussion with Accord parties)**

As of Oct. 31, 2008, BPA had made budgetary commitments to a suite of projects with seven<sup>10</sup> entities to be implemented over 10 years. These budgets represent continued support for the work implemented through existing projects,<sup>11</sup> and additional funding for expanded and new projects.<sup>12</sup> While the budget management mechanisms for Accord work are still being discussed with the Accord parties, it is clear that managing budgets to accomplish the accord project deliverables over 10-years will require a budget management approach that is more flexible than current mechanisms. Therefore, BPA and the Accord parties are considering a management approach that adds broader work-scheduling flexibility at the project level and tighter management at the entity level.

**Carry Over and Reschedules** – In the near term, slow ramp-up of new Accord work could result in under spending as compared to rate case assumptions. Since the Accords are a combination of a commitment BiOp performance and a 10-year funding amount, BPA will likely allow rescheduling of unspent dollars throughout the '09-'17 period, but with the caveat that annual spending would not exceed 120% of the original entity-specific budget for each planning year.

**Re-distribution of Accord Funds** – Since the Accords allow unspent entity-specific funds to be rescheduled into subsequent fiscal years (consistent with the entity's budget cap), these funds will not be made available to other Program components. Likewise, Accord projects will not receive dollars transferred from non-Accord funds. However, BPA could allow for some funds to be transferred between Accord projects so long as these transfers result in neutral or greater on-the-ground benefits and/or neutral or greater benefits to listed anadromous fish and are consistent with the entity level budget caps.

**Project Budget Adjustment Processes** – Since the Accords specified a total 10-year budget commitment by entity, a project-specific budget adjustment in any one year will require a corresponding entity-specific budget adjustment. Budget increases could come from other Accord projects or from the same project in a different year consistent with entity budget caps. Therefore, BPA will manage budget change requests directly with the Accord entities. Though discussions are still underway, the process could include a request by the entity to BPA that describes the nature of the budget adjustment. BPA will evaluate the request, engage in any necessary negotiations, and implement the decision. For transparency purposes, BPA will share the requests and decision rationales with the region via regular updates to BOG.

**New Work (including significant scope expansions)** – The previous sections describe how budgets will be managed once a project is underway. However, the Accords also contain additional funding for existing and new projects that are outside the scope of past proposals. For this sub-set of work, the Accord parties have agreed to develop narrative documents prior to

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<sup>10</sup> Note: This number does not include pending accords as of 10/31/2008

<sup>11</sup> Existing projects are those that were included (with budgets) in the Program as part of BPA's '07-'09 Project Funding Decision.

<sup>12</sup> Expanded work (or projects) is additive the actions already being undertaken by existing projects. In particular, the new work falls within the scope of the project as reviewed by the ISRP. New work is beyond the scope of work that was reviewed in past solicitation processes.

contracting. Once these narrative documents, which will be similar to those developed as part of the '07-'09 proposal process, are attached in PISCES, BPA will forward them to the ISRP for science review and proceed to contract development. Once the ISRP has completed its review and provided it to BPA, the relevant Accord entities will work with BPA to determine how best to utilize the ISRP's input and will document these decisions.

#### **IV. Component Type 3: the FCRPS BiOp (Non-Accord)**

BPA will also manage a distinct segment of the Program's overall budget to ensure implementation of FCRPS BiOp commitments outside of the Fish Accords. Unlike in the Accords, BPA's non-Accord BiOp commitments are currently linked to specific reasonable and prudent alternatives (RPAs) and not to specific budget amounts or to specific contractors. In FY09, BPA has determined that many of the RPAs are best achieved through projects proposed as part of the FY07-09 solicitation. However, BPA's FY09 SOY budget also reflects additional funding to support the BiOp by augmenting some existing projects and adding new work not included in BPA's FY07-09 funding decision. In 2010 and beyond, BPA will continue to rely on known sponsors for much of this work, but may also choose to develop targeted solicitations, in coordination or partnership with the Council, to solicit for alternative implementation mechanisms and/or to choose sponsors for new projects.

***Carryover and reschedules*** – BPA's commitment under the FCRPS BiOp is to specific work rather than to a set amount of money. Therefore, BPA will not explicitly carry over unspent BiOp funds. If a project can be implemented at a lower than forecasted amount, those dollars would be used to cover the higher-than-forecasted needs of other BiOp projects or else returned to ratepayers by being kept in BPA's cash reserves.

To allow for the completion of planned, on-the-ground work that was delayed for reasons beyond the sponsor's control, we will include a \$2.0 million BiOp reschedule placeholder<sup>13</sup> in the FY10 and 11 planning budgets to facilitate rescheduling of work. This process will continue to be managed through BOG.

***Within year adjustments and preschedules*** – Though the BiOp (non-accord) budget will be managed separately from other Program components, BPA will continue to use the BOG forum to track and discuss preschedule requests and requests for changes to individual project budgets after the start of the fiscal year. As in the past, project sponsors will submit requests through existing forms and discuss their request with BPA and the Council in the BOG forum. Following the BOG discussion, BPA management will make its decision and document the Agency's rationale in a letter to the Council. Funding for budget adjustments will come from a BiOp within-year placeholder of \$2 million per year (over and above BiOp reschedule placeholder).

***Additional work with identified sponsors*** – The FY09 SOY budget includes expanded funding for some existing projects. Where additional BiOp funding is within the scope of existing work, contracting will proceed within the SOY budget. Where the work will be implemented by an

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<sup>13</sup> The \$1m figure reflects a best estimate based on past reschedule requests.

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existing sponsor but is beyond the scope of an existing project, narratives will be developed and reviewed by the ISRP consistent with the process for Accord projects.

**New Work** – The FY09 SOY budget was also increased by approximately \$22 million<sup>14</sup> to support RPAs that may not be implemented through existing projects or project proposals. BPA will work with the Council to identify the most efficient and effective ways to select sponsors for implementing these RPAs. Where BPA has not selected a contractor, one approach could be a joint Council-BPA targeted solicitation. Regardless of the process for selecting a sponsor, BPA will submit the appropriate narrative documents to the ISRP for review prior to contracting.

DRAFT

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<sup>14</sup> This is a very rough estimate based on '09 SOY budgets for 2008-7xx-xxx series projects and un-numbered BiOp placeholders. This is a sub-set of new non-Accord BiOp work – '09 SOY budgets include about \$28m for new non-Accord BiOp work. This translates into an expected revenue need for rates of about \$21m for the same work due to ramp-up expectations.



# FY 2009

- Planning Budget

- BiOp      \$94 M

- Accord     \$76 M

- Other      \$45 M

- Target Budget

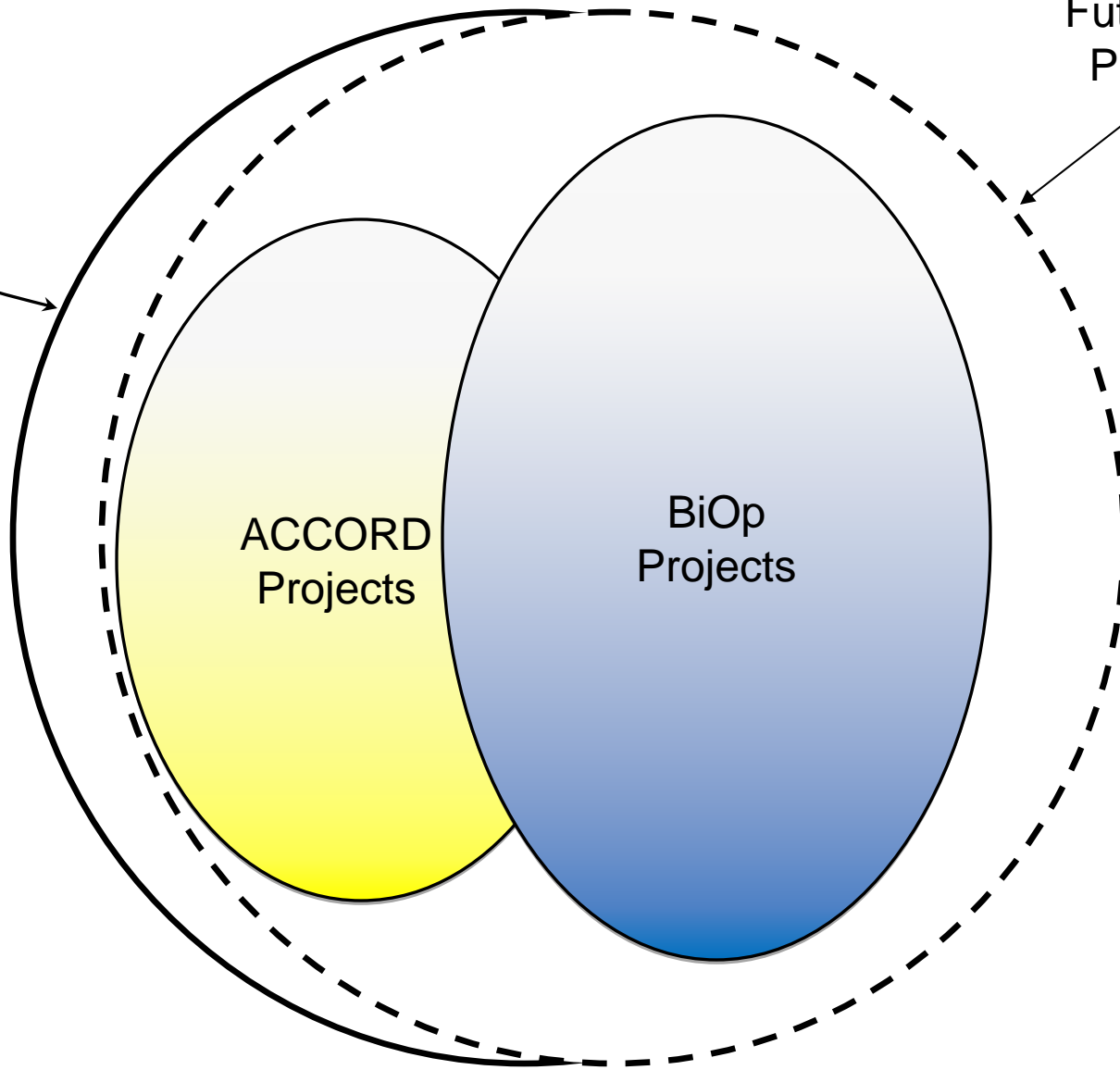
- BiOp      \$85 M

- Accord     \$61 M

- Other      \$42 M

Current F&W  
Program

Future F&W  
Program



ACCORD  
Projects

BiOp  
Projects

# Fish and Wildlife Program Expense Funding

## Actual and Projected

