

Department of Energy

Bonneville Power Administration
P.O. Box 3621
Portland, Oregon 97208-3621

EXECUTIVE OFFICE

March 28, 2003

In reply refer to: KE-4

Ms. Judi Danielson, Chair
Northwest Power and Conservation Council
851 S.W. Sixth Avenue, Suite 1100
Portland, OR 97204-1348

Dear Ms. Danielson:

Thank you for your February 21, 2003, letter responding to my request for recommendations from the Northwest Power and Conservation Council (Council) to identify appropriate steps to ensure that Bonneville Power Administration's (BPA's) Fiscal Year (FY) 2003 expense accruals for the Integrated Program do not exceed \$139 million. I appreciate your willingness to undertake this difficult task and applaud the extra effort expended by the Council, its staff, and those who assisted you.

In reviewing your letter, we find that the Council's recommendation has met our stated needs. However, since the time of the Council's recommendation, some project sponsors have requested higher accruals or have identified omissions in their 2002 end-of-year accruals. In addition, some of the Council's recommendations did not acknowledge the accruals to date in the implementation of certain projects. Any accommodations for these funds must be provided within the \$139 million accrual limit. We understand the Council staff will develop a process to allow for adjustments while ensuring the program accruals do not exceed \$139 million. Given the uncertainty of the outcome of this process, BPA will phase in the Council's recommendations over the coming months in the following manner:

- Phase 1: Actions to be taken immediately
 - All existing contracts will proceed and be renewed as appropriate
 - Issue contracts that are necessary for the 2003 check-in from the Columbia Cascade, Columbia Estuary, Lower Columbia, Middle Snake, and Upper Snake provinces
- Phase 2: Actions to be taken after the conclusion of the Mainstem System-wide Provincial Review
 - Issue contracts for recommended projects that are necessary for the 2003 check-in
- Phase 3: Actions to be taken on conclusion of the Council's 2003 reallocation process and an initial estimate of 2004 accruals assuming implementation of the current Council recommendations for 2004
 - If revised 2003 and initial 2004 accrual estimates indicate sufficiency, issue remaining new contracts

Please note that all expense contract renewals and newly issued contracts for the remainder of this fiscal year will be issued with a contractually enforceable fiscal year 2003 accrual limit ceiling. We recently held contracting workshops with a large number of our contract partners and discussed these ceilings.

Your letter indicates the Council is unwilling to address FY 2004-2006 funding levels because two critical issues remain unresolved: capitalization of land and carryover. We are prepared to work with you to try to resolve these issues promptly; however, they are complex issues, and given that the Council has just identified a subcommittee on capitalization at their March 11, 2003, meeting, we will be unable to complete these discussions quickly. Yet, our need to make decisions about cost estimates for FY 2004-2006 to inform the SN CRAC process still exists.

Although we believe there are potential efficiencies that can be gained through a clear definition of objectives, priorities, and least-cost planning within the program, BPA is reluctant to target a reduction unilaterally. Therefore, we have included the \$139 million expense level and \$36 million in available borrowing authority for FY 2004-2006 identified in my December 3, 2001, letter as the levels in the SN CRAC process. Nevertheless, as a part of the SN CRAC process we have proposed an approach that may allow further reductions in FY 2004-2006 funding levels to be incorporated as late as July 15, 2003, and still affect the rate level calculation. Given the state of the regional economy and BPA's financial position, I am asking the Council's guidance if it is feasible to lower the rate case estimate of average annual accrual expense spending for the Integrated Program to below \$139 million for the out-years of this rate period, and if it is, by approximately how much.

BPA remains willing to explore the capitalization of land for fish and wildlife habitat and the issues related to such a proposal. In keeping with this commitment, BPA has already provided additional information to the Council regarding crediting. The renewed wildlife subcommittee is an appropriate forum for addressing these issues. To advance our work on this issue, I would like to reiterate our three principles for capitalizing land:

1. Ensure measurable benefit from acquisitions and appropriate crediting for ratepayers.
2. Amount of borrowing authority used reflects BPA's limited access to capital.
3. Ensure treatment is consistent with GAAP and FAS 71 guidelines.

For now, we will include in rate case documentation the notice that BPA is considering capitalizing land acquisitions, which should aid us in meeting the third principle. Finally, as I noted at your February meeting, while it is good news that BPA received an additional \$700 million in borrowing authority, this does not resolve all of BPA's issues associated with limited access to capital. It is our intention that fish and wildlife capital costs will be managed as part of our overall capital program.

Further, given our limited access to capital, a change in BPA policy that increases the use of our borrowing authority is significant and must be handled thoughtfully and deliberately. We believe there is sufficient mutual understanding of capitalization for the Council and BPA staff to work toward agreement on whether and how to proceed with land acquisitions. However, getting to resolution may not happen quickly. There are many projects that the Council chose to

defer, assuming that we would change our capital policy. Some of these acquisitions are very time sensitive and may not be able to wait for full resolution of this significant policy issue. Therefore, BPA and the Council may need to consider other options for these projects. For its part, BPA is willing to proceed with such discussions at your earliest convenience.

We appreciate the planning and implementation difficulties arising for multiple-year projects that receive only annual funding commitments. The Council and others have recommended BPA provide some form of carrying unexpended funds from one fiscal year to another as a way to ease this apparent management dilemma. Other parts of the BPA organization have successfully managed similarly structured contracts on an annual basis for years. We are currently reviewing their contract management practices to determine the most effective way of addressing these issues. We do not want to proceed with a carryover structure that encourages project sponsors to believe they are automatically entitled to the full amount stated in their project budgets regardless of their progress or that would encourage spending up to accrual budget limits for fear funding would be lost. We are, however, willing to work with the Council and project sponsors to explore forms of within-year reallocation and possibilities for how to cover case-by-case circumstances where projects become delayed. We expect recommendations from these discussions to result in a stronger relationship between project management and estimated accrual forecasts.

With regard to budget certainty, the Council's letter seemed to question BPA's commitment to manage budgets to ensure that funds are available to fulfill them. I respect the Council's interest in a memorandum of agreement (MOA) with BPA similar to the 1996 Fish and Wildlife Budget MOA among federal agencies. The clear definition of budgeting practices provided for by the previous MOA is of interest to many. BPA is willing to work with you and others to define those practices for the remainder of this rate period.

In addition, there are many interests that parties in the region may want to discuss for the post-2006 period. We believe such a discussion would make sense in parallel with the regional dialogue discussions regarding BPA power service post-2006. BPA specifically would like to define clear objectives, priorities and least cost planning for the Integrated Program. Further, a discussion about how to predictably manage through financially difficult times would be of value.

BPA and the Council have enjoyed a highly productive partnership since the passage of the Act. As BPA's guide in implementation of its share of the Integrated Program, the Council has my respect and appreciation. Now more than ever before, I believe we must renew our efforts to work collaboratively for the benefit of the region's fish and wildlife.

Sincerely,

/s/ Stephen J. Wright

Stephen J. Wright
Administrator and Chief Executive Officer

cc:

Mr. Rod Sando, Columbia Basin Fish and Wildlife Authority