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December 2, 2003

MEMORANDUM

TO: Council Members

FROM: John Ogan and Doug Marker

SUBJECT: Update on the development of a new Bonneville funding agreement

The Council staff team that has been committed to work with Bonneville and others to develop a fish and wildlife funding agreement will report developments to the Council at each meeting until this work is completed. The primary purposes of this month's update are: (1) to initiate discussion with, and secure guidance from, the Council on some broad matters of scope and schedule, and; (2) to confirm that we correctly understand of Council guidance given staff at the Coeur d' Alene meeting in November.

I. Schedule and Scope of a funding agreement

Since the governors of the four Northwest states asked the Council to lead an effort to establish a new fish and wildlife funding agreement with Bonneville, we have separated this task into short and long-term elements. The focus of this briefing is the long-term component that would commence with Fiscal Year 2007.

Schedule

We understand that the Council views a fish and wildlife funding agreement as an input to Bonneville's rates development process. Therefore, the schedule for completing the funding agreement is driven by Bonneville's schedule for developing program cost estimates for its next rate case. The current rates period expires at the end of Fiscal Year 2006. We understand that Bonneville will conduct a revenue requirements study throughout the second half of calendar year 2004. The staff is discussing and clarifying the rates setting process schedule with Bonneville staff. When the staffs have jointly developed a schedule, we recommend that the Council formally confirm with the Administrator that completing the agreement on that schedule will enable Bonneville to rely upon it for the wildlife funding element of Bonneville's rate-setting processes.

Term of Agreement

We have operated under the assumption that Bonneville will continue to frame its revenue requirements and rates in five-year periods. The funding agreement term must cover at least the next Bonneville rate period, which we believe will apply to Fiscal Years 2007 through 2011. Should Bonneville elect to establish a shorter rate period, it does not necessarily follow that the term of a fish and wildlife funding agreement must match that of the rate period. The staff believes that a five-year funding agreement strikes the right balance between certainty and flexibility for changing circumstances.

Breadth of Agreement -- Subject Funding categories

In prior briefings, staff has proposed that a new funding agreement focus on the direct program funding category (both capital and expense elements). At this time we do not see substantial value in seeking to resolve levels of funding for Corps capital or other fish and wildlife costs that are appropriated to other federal agencies and reimbursed by Bonneville, or those that are the subject of a bilateral (direct) funding agreement between Bonneville and another federal agency.

Focusing on the direct fish and wildlife program funding category will allow the Council to focus on defining appropriate funding for its Fish and Wildlife program, and importantly, the initial funding of the subbasin plans that will be adopted in late-2004/early-2005. Any off-site mitigation that may be required of Bonneville by ESA would need to be integrated as part of this direct funding element, and the Council and NOAA would be responsible for resolving that.

II. Council Guidance from Coeur d' Alene Meeting

The Council had the opportunity to discuss ideas about a funding agreement proposed by Steve Wright in his letter of October 3, 2003 to the Council Chair. The staff understands that the Council is receptive to developing a framework for fish and wildlife program cost estimation that is performance oriented and cost effective. However we understood the Council members to be united in their belief that this does not require redefining Bonneville's fish and wildlife obligations in an ultimate way. We understand our that we are to expeditiously work to develop a funding agreement that satisfactorily funds the fish and wildlife program and subbasin plans, including ESA needs, within a construct that fosters accountability, cost-effectiveness, and stability as requested by the four governors in last June.