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MEMORANDUM

TO: Council Members

FROM: John Ogan and Doug Marker

SUBJECT: Bonneville Funding Agreement/MOA Update

The staff continues to work with BPA staff, staff from Tribes, and with a utility representative on a funding agreement/MOA for fish and wildlife program funding and implementation in the next rate period. This memorandum, and the update we will provide at the meeting, describes the organization of the group working on this matter and the status of the discussions in two substantive areas.

Background

For the 1996 through 2001 fiscal years, a Memorandum of Agreement between federal agencies established Bonneville's fish and wildlife funding commitments and budget management protocols. That Agreement was not extended, and both budget level and management standards uncertainty has attended fish and wildlife program funding and implementation over the last two fiscal years. In the Spring of 2003, the Council started to express its opinion that fish and wildlife program implementation must be made more certain and stable, and that the vehicle would be another funding agreement with Bonneville. In June 2003, the Governors of the Northwest States expressed the same opinion, and called upon the Council to work with others in the region to develop a new agreement to achieve those objectives. In October, Steve Wright sent a letter to the Council indicating a willingness to work on a long-term funding agreement. The Tribes had come to a similar conclusion about the necessity of a new funding agreement with Bonneville, and shared a list of principles related to a new long-term agreement developed by the 13 Columbia River Basin Tribes with the Council in early 2004.

Last fall and winter the Council staff spent considerable time working with Bonneville, and coordinating with key Tribal representatives, on items identified in Steve Wright's October letter

that Bonneville wanted to be part of a new MOA. The issue that the most time was spent on was the Administrator's desire to have Bonneville's fish and wildlife obligations defined in advance of the development of a new funding agreement. Over the course of several months we investigated the feasibility of completing that type of exercise, and concluded, with Bonneville's concurrence, that it was not possible or desirable to do a complete definition of Bonneville's fish and wildlife obligations as part of this work. However, the Council, Bonneville, and Tribal representatives did agree to explore the possibility of developing a "construct" for the funding agreement that could relate Bonneville's expenditures to a set of performance based standards or objectives. That is, the group thought that it could be beneficial to frame the funding levels in a new agreement around a set of fish and wildlife work accomplishments.

The background above is the context for describing the progress to date. We have broken the work into three areas.

Fish and Wildlife Program Appraisal

Council staff believe that an initial step in developing a future fish and wildlife funding level for Bonneville required an appraisal of the existing program to account for costs that are likely to persist into the future to maintain past productive investments. A subset of Council and Bonneville staff systematically reviewed the projects currently being funded, and sought to identify those that have a future funding commitment to fashion an estimate of a base of required future costs. The staff found that approximately \$60 to \$70 million/year is required to maintain the as built "plant" of the fish and wildlife program. This figure is rough -- there is lots of room for refining the figure, and we have been advised of some additional projects that might have costs included in the figure. The Tribes' representatives do not concur that the estimate is complete at this time, or is free of error. However, for the time being, the staff believes, and the others in the workgroup agree, that this is a fair enough estimate to set aside for now and move on to develop other pieces of the MOA, not the least of which is the amount of Bonneville funding that would need to be *added* to this figure to continue the positive pace and progress of fish and wildlife protection, mitigation, and enhancement.

There have been concerns by some the program appraisal exercise -- what it is, and what it is not. To be clear, this was an exercise to form a general estimate of the annual costs of maintaining "the plant" in 2004 dollars. The appraisal was done for budget development for a new long-term BPA funding agreement -- we believe that it is important to have an estimate of how much funding is essentially committed to maintain the current program structure as an early step in discussing funding levels for the next five years or so. We have emphasized that this endeavor was not a project selection or decision exercise -- whether or not a project that was used to develop the estimate continues to be funded in future fiscal years, and at what level, is a decision that will be taken up in project selection decisions. Additionally, we have continually stated that the appraisal estimate is *not* an estimate of Bonneville's base or minimum fish and wildlife funding obligation. Bonneville has assured the participants time and again in the meetings that it does not view the appraisal as a cost estimate of its fish and wildlife obligations and would not use it as such.

MOA “Construct”

As discussed above, while all parties have acknowledged that a full definition of Bonneville’s obligations may not be possible or necessary as part of this funding agreement, at Bonneville’s request we did agree to explore the possibility of a performance oriented “construct” for the agreement. That is, we would investigate if the goals for fish and wildlife work for the next rate period could be expressed in a type of performance-oriented framework. Council staff thought that this “construct” might be developed in *advance* of estimating fish and wildlife program levels for the next rate period, and would in fact, be something of a formula that would be used to actually establish cost levels. For example, the construct might group habitat work into a handful of broad categories (restore fish access; protect/restore riparian function; etc, next we would set measurable goals for the category (e.g. “miles of access opened”; “miles of riparian treated”; etc.) and then we would attempt to develop a unit cost for each category. With those elements of a construct established, we would then develop a funding figure by investigating the costs of achieving the goals we have set.

This past month we established a sub-group, led by John Shurts to work more on the “construct” element. The preliminary thoughts of the subgroup appear to be that we may not be able or wanting to develop a framework to drive the estimates of the funding requirement as discussed above. Rather, the sub-group appears to be advising that more effort be put into looking over the existing fish and wildlife program and its current implementation, and look at a high level at the proposed subbasin plans, to get a rough sense of the aggregate work/strategies/actions proposed. From that information we would roughly size the cost of that effort over the next five years, and, at the same time, develop a general program scale habitat performance objective framework to track implementation. Current implementation experience and that forecast by subbasin plans would drive the cost estimation work, as opposed to a formula established by a performance “construct” unrelated to either.

The Council staff believes that the sub-group’s approach would work and meet the Council’s key objective of developing a cost figure to be used in Bonneville’s rate case. While the Council has been willing to work with Bonneville on a construct that it felt could be used to ultimately express funding more in terms of its obligations, we believe that its key objective has been to develop the appropriate figure and budget rules to inform the rate case. We want to confirm with the Council that the approach being suggested by sub-group is acceptable.

Management Issues

The next funding agreement can be used to deal with issues related to budget implementation and accounting issues. We believe that the agreement can address future implementation processes. The agreement could also speak to broader issues related to fish and wildlife funding sources beyond Bonneville, and establish expectations of the region with regard to integration of similar efforts. A separate sub-group, led by Doug Marker, is in the scoping stage for this element of the agreement. The group met near the end of May, and the group is developing draft proposals for consideration. Council staff will want to discuss with the members the nature of the management issues being discussed, and get feedback on which issues the Council believes must be resolved as part of a funding agreement.