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Montana

April 27, 2006

## MEMORANDUM

**TO:** Council members

**FROM:** Patty O'Toole, Program Implementation Manager

**SUBJECT:** Discussion of the FY 2007-2009 project selection process

Attached to this cover memo is the current draft of the rolling issue memo. The Fish and Wildlife Committee has been working through several of the various issues described in the memo.

At the May Council meeting staff will present recommendations from the Fish and Wildlife Committee on **issue # 5**, the use of capital funds in the Fish and Wildlife Program for FY 2007-2009 and we seek concurrence from the Council on the recommended approach, pending completion of the final funding recommendations. We do not think a formal vote by the Council is required.

**Quick summary of Issue #5:** *Assumptions for use of Bonneville's capital borrowing authority to finance certain recommended proposals*

- Bonneville and Council have different interpretations of capital policy
- Resulted in stalled projects and largely unused capital budget during implementation of last rolling province review.

### **Committee Recommendation:**

- Recommend we use Bonneville interpretation of capital rules for purpose of preparing budget recommendations for 0709.
- Continue to seek changes in interpretation of policy
- Not accept retroactive decrements against the expense budget for projects that were moved by Bonneville from capital to expense budget.

**Discussion (excerpted from draft rolling issue memo, (version 4) page 10:**

**Issue 5. Assumptions for use of Bonneville's capital borrowing authority to finance certain recommended proposals**

For Fiscal Years 2007 through 2009, Bonneville has stated that it will make available up to \$36 million for "capital" investments. Bonneville has also stated that use of these funds is subject to particular rules and standards prescribed by Bonneville in its "Capital Funding Policy for Fish and Wildlife Projects."

The Council has differed with Bonneville for the last few years over these rules for access to Bonneville capital for the fish and wildlife program. The Council has stated its belief that Bonneville has read the governing legal requirements and accounting rules more strictly than warranted, resulting in more restricted use of capital funding than is necessary or prudent. Specific issues have included whether a project must cost more than \$1 million to be eligible for capital funding; whether and how separate but related actions that each cost less than \$1 million may be aggregated to reach the threshold; whether a "crediting" mechanism must be in place first for a project to be eligible for capital funding and of what type; when and how planning expenses for a capital project may be capitalized; and more.

In the last set of multi-year project recommendations (in the provincial review process), the Council recommended projects for capital funding based on our understanding of the rules of access for capital funding. This was just before the Bonneville rules and policy were clarified. The end result was that the Council recommended a number of projects for capital funding that Bonneville did not allow to be funded in that way. Projects either stalled or had to be funded out of the very tight expense budget if they were to go forward, while the available capital funds went largely unused.

The Council directly raised these capital policy issues with Bonneville in the Council's funding recommendation decisions in FY05 and FY06. Bonneville held firm to the rules of access in its capital policy. The only two types of projects that have managed to satisfy the capital rules in any systematic way have been the actual construction costs of major hatchery facilities and large land acquisitions for wildlife mitigation (and last year, Bonneville allowed certain related wildlife land acquisition projects to be aggregated to reach the \$1 million threshold). Project types that Bonneville has deemed *not* to satisfy the capital rules have included other wildlife land acquisition projects (as less than \$1 million); nearly all land acquisitions to protect habitat for fish, even if well over the monetary threshold, on the grounds that the program lacks a crediting mechanism for fish habitat acquisitions (outside of the context of the Hungry Horse and Libby mitigation programs); planning expenses for major capital facilities; and large coordinated investments in fish habitat protection through installation of fish screens or other passage improvements, water optimization and other similar work. The application of the rules for access to capital in this last category may be tightening.

The Council needs to decide how to proceed as it reviews project proposals for in all these areas for FY07 to 09. It seems pointless once again to include projects in the capital budget that we know Bonneville will conclude do not satisfy the rules for access to capital, and then write up the

issue in the decision memo. The practical choices are to yield (for the moment) or elevate the issue in a more substantial way, through a higher profile political or legal strategy.

**Preliminary Staff Recommendation (March 21, 2006):**

The staff's preliminary recommendation is to acquiesce in the Bonneville policy for the purposes of constructing the FY 07-09 budget recommendations. Acquiescence does *not* mean giving up on seeking changes in the capital policy. What it would mean is that in constructing the planning budget recommendation for the coming fiscal years, the Council would develop the capital and expense parts of the budgets using Bonneville's interpretation rules for access to capital. At the same time, the Council could pledge to continue to try to get Bonneville to modify those rules or (more likely) be more flexible in their application, with the possibility of adjusting the set of projects in the capital side of the budget in the future if the capital policy changes or moderates in application.

**Comment received:** The Committee largely agreed with the preliminary staff recommendation. While the Committee did not endorse in every particular what it understands to be Bonneville's capital policy, it did decide that what is most immediately important is having Bonneville clearly document its capital funding policy -- to be clear about what the rules are and to be consistent in applying them. However, the Committee was not willing to accept without more investigation and discussion that the expense fund for fish and wildlife be decremented retroactively because some projects were identified by Bonneville that have been previously capitalized but do not meet capital funding requirements. The Committee accepts that those projects need to be funded in the future with expense funds.

**Staff Recommendation (April 12, 2006):** No change from the Preliminary recommendation. The staff will work with Bonneville to determine if there is flexibility around Bonneville's initial comment that the expense fund will have to be decremented retroactively for the projects recently reclassified from capital eligible to not being capital eligible.

**Committee Recommendation (May 9, 2006):** The Committee accepted the staff recommendation to acquiesce in the Bonneville policy for the purposes of constructing the FY 07-09 budget recommendations. Acquiescence does *not* mean giving up on seeking changes in the capital policy. What it would mean is that in constructing the planning budget recommendation for the coming fiscal years, the Council would develop the capital and expense parts of the budgets using Bonneville's interpretation rules for access to capital. At the same time, the Council could pledge to continue to try to get Bonneville to modify those rules or (more likely) be more flexible in their application, with the possibility of adjusting the set of projects in the capital side of the budget in the future if the capital policy changes or moderates in application. The Committee reinforced the point that they are *not* willing to accept that the expense fund for fish and wildlife will be decremented retroactively because some projects previously identified by Bonneville as capital now do not meet capital funding requirements.

**Staff seeks concurrence on this recommendation from the Council at the May meeting.** We do not think a formal vote by the Council is required.



## Department of Energy

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

Environment, Fish and Wildlife

March 30, 2006

In reply refer to: KEW-4

Northwest Power and Conservation Council  
Ms. Rhonda Whiting, Chair  
Fish and Wildlife Committee  
851 S.W. Sixth Avenue, Suite 1100  
Portland, OR 97204-1348

Dear Ms. Whiting:

Bonneville Power Administration (BPA) has completed a preliminary review of project proposals that the Northwest Power and Conservation Council (Council), BPA, and Columbia Basin Fish and Wildlife Authority (CBFWA) staff identified as potentially having capital components. We are pleased to provide with this letter our initial capital/expense determinations (**Tables 1 and 2**). Of necessity, these tables are a preliminary work-product that reflect an evaluation of information currently available in the existing proposals; some uncertainties remain because of incomplete information. BPA will continue to refine its evaluations as more details about individual projects become available. We acknowledge the complexity inherent in BPA's capital policy, and remain committed to addressing those uncertainties and the issues that need to be resolved in order for BPA to make final capital and expense determinations.

As you know, BPA continues to have some reservations about identifying which project proposals could qualify for capital funds ahead of the actual selection of projects for implementation. This reservation is simply a matter of wanting to first address the priority of the projects relative to the most critical factors limiting the productivity and abundance of fish and wildlife, independent of potential funding category. We understand the Council's interest in knowing which projects can be capitalized as a precursor to developing the capital and expense components of the FY 07-09 planning budget, but also wish to reinforce our common interest of evaluating all proposals with the same rigor.

We are concerned that assigning proposals to funding sources at the outset of project review could lead to expectations about future funding recommendations for projects that can be capitalized, but that may provide fewer fish and wildlife benefits and are of lower value relative to other proposals under review. And as you are aware, we also need to ensure that we have fully considered the impact of operation and management expenses (O&M) associated with the choice of capital projects in the near-term, to avoid the potential of foreclosing the implementation of important habitat projects and other high-

priority Program initiatives in the out-years. Review and prioritization of proposals based on a common set of performance expectations and programmatic objectives will help ensure that the choices we make on project funding, whether capital or expense represent the best value for dollar spent in the long-term.

We examined the 37 proposals identified for further review to assist the Council's development of a planning budget for the Program. We found that 20 could potentially be capitalized. Our final determination is dependent on additional information that will become available through the proposal review and selection processes, and subsequent BPA contracting. To make a final capital determination, we must confirm that recommended projects meet the \$1 million threshold and other capital policy requirements.<sup>1</sup> As we work with the Council to finalize these capital and expense determinations, we are developing the appropriate documentation to explain how each project meets the capital criteria, and that can be applied uniformly to future consideration of capital expenditures. With this approach, we hope to make capital spending decisions more transparent, consistent, and predictable for Program participants in this and future years.

If you have any comments or questions about these issues, or BPA's preliminary capital determinations, please let me know.

Sincerely,



William C. Maslen  
Director of Fish and Wildlife

2 Enclosures

Table 1. Results of BPA's Initial Capital/Expense Review

Table 2. Results of BPA's Initial Capital/Expense Review

cc:

Mr. Doug Marker, Northwest Power and Conservation Council (electronic)  
Mr. Mark Fritsch, Northwest Power and Conservation Council (electronic)  
Ms. Patty O'Toole, Northwest Power and Conservation Council (electronic)  
Ms. Stacy Horton, Northwest Power and Conservation Council (electronic)  
Mr. Tony Grover, Northwest Power and Conservation Council (electronic)  
Mr. Kerry Berg, Northwest Power and Conservation Council (electronic)  
Mr. Karl Weist, Northwest Power and Conservation Council (electronic)  
Ms. Joann Hunt, Northwest Power and Conservation Council (electronic)  
Mr. Brian Lipscomb, Columbia Basin Fish and Wildlife Authority (electronic)  
Ms. Amy Langston, Columbia Basin Fish and Wildlife Authority (electronic)  
Mr. Tom Iverson, Columbia Basin Fish and Wildlife Authority (electronic)

<sup>1</sup> For more information, see BPA's capital policy at:  
[http://www.efw.bpa.gov/Integrated\\_Fish\\_and\\_Wildlife\\_Program/FW%20Capitalization%20Policy%2011-4-04.pdf](http://www.efw.bpa.gov/Integrated_Fish_and_Wildlife_Program/FW%20Capitalization%20Policy%2011-4-04.pdf)

**Table 1. Results of BPA's Initial Capital/Expense Review: Capital Projects (subject to final review)**

<b>Proposal Number</b>	<b>Title</b>	<b>Sponsor</b>	<b>Province</b>	<b>Subbasin</b>	<b>Type</b>	<b>Preliminary Capital Expense Category</b>	<b>Initial BPA (Finance) Capital/Expense Determination (Subject to final review)</b>	<b>Primary Uncertainty for Capitalization</b>
198805301	Grande Ronde/Imnaha Endemic Spring Chinook Supplementation – Northeast Oregon Hatchery	Nez Perce Tribe	Blue Mountain	Grande Ronde	Anadromous	Both	Capitalize land acquisition and construction	
199004401	Lake Creek Land Acquisition	Coeur D'Alene Tribe	Intermountain	Coeur d'Alene	Wildlife	Both	Capitalize land acquisition	Land acquisition requirements <sup>b</sup>
199106200	Spokane Tribe Wildlife Mitigation	Spokane Tribe	Intermountain	Spokane	Wildlife	Both	Capitalize land acquisition	Land acquisition requirements <sup>b</sup>
199206100	Albeni Falls Wildlife Mitigation	Albeni Falls Interagency Work Group	Intermountain	Pend Oreille	Wildlife	Both	Capitalize land acquisition	Land acquisition requirements <sup>b</sup>
199206800	Willamette Basin Mitigation	Oregon Department of Fish & Wildlife (ODFW)	Lower Columbia	Willamette	Wildlife	Both	Capitalize land acquisition and permanent easements	Land acquisition requirements <sup>b</sup>
199505702	Southern Idaho Wildlife Mitigation	Shoshone-Bannock Tribes	Upper Snake	SNAKE Upper	Wildlife	Both	Capitalize land acquisition	Land acquisition requirements <sup>b</sup>
199505703	Southern Idaho Wildlife Mitigation	Shoshone Paiute Tribes	Middle Snake	Owyhee	Wildlife	Both	Capitalize land acquisition	Land acquisition requirements <sup>b</sup>

<b>Proposal Number</b>	<b>Title</b>	<b>Sponsor</b>	<b>Province</b>	<b>Subbasin</b>	<b>Type</b>	<b>Preliminary Capital Expense Category</b>	<b>Initial BPA (Finance) Capital/Expense Determination (Subject to final review)</b>	<b>Primary Uncertainty for Capitalization</b>
200200300	Secure & Restore Resident Fish Habitat	Salish & Kootenai Confederated Tribes	Mountain Columbia	Flathead	Resident	Both	Capitalize acquisition and permanent easement	Land acquisition requirements <sup>b</sup>
200300100	Manastash Crk Passage & Screening	Kittitas County Conservation District	Columbia Plateau	Yakima	Anadromous	Both	Capitalize construction (good functionally interdependent example)	Parts appear functionally interdependent <sup>a</sup>
200302300	Chief Joseph Hatchery Program	Colville Confederated Tribes	Columbia Cascade	Okanogan	Anadromous	Both	Capitalize land acquisition and construction	
200702700	Colville Confederated Tribes Acquisition Project	Colville Confederated Tribes	Intermountain	Columbia Upper	Wildlife	Both	Capitalize land acquisition - medium certainty	Land acquisition requirements <sup>b</sup>
200707000	Fish Passage Facility Final Design and Construction - Clear Lake Dam (NF Tieton R.).	Washington Department of Fish and Wildlife (WDFW)	Columbia Plateau	Yakima	Resident	Capital	Capitalize construction - (FS/BPA MOU)	Shared responsibility with USFS
200708400	Shrubsteppe Habitat Acquisition	Washington	Columbia	Columbia	Wildlife	Both	Capitalize land	Land acquisition requirements <sup>b</sup>

<b>Proposal Number</b>	<b>Title</b>	<b>Sponsor</b>	<b>Province</b>	<b>Subbasin</b>	<b>Type</b>	<b>Preliminary Capital Expense Category</b>	<b>Initial BPA (Finance) Capital/Expense Determination (Subject to final review)</b>	<b>Primary Uncertainty for Capitalization</b>
	for Terrestrial Species in Need of Conservation in the Upper Mid-Columbia Subbasin.	Department of Fish and Wildlife (WDFW)	Cascade	Upper Middle			acquisition - medium certainty	
200715300	Cardwell Hills Wildlife Mitigation and regional Biodiversity Protection Project	David Evans and Associates, Inc.	Lower Columbia	Willamette	Wildlife	Both	Capitalize land acquisition - medium certainty	Land acquisition requirements <sup>b</sup>
200721200	Develop a locally-adapted summer steelhead program to supplement natural production throughout the Okanogan River basin	Colville Confederated Tribes	Columbia Cascade	Okanogan	Anadromous	Both	Capitalize hatchery upgrade	\$1Million Threshold
200723200	Okanogan-Similkameen Habitat Protection Project - Fish and wildlife habitat protection through fee simple and conservation easement purchases.	Washington Department of Fish and Wildlife (WDFW)	Columbia Cascade	Okanogan	Wildlife	Both	Capitalize land acquisition	Functionally interdependent <sup>a</sup>
200726000	Acquisition of a Conservation Easement over 1084 acres of	Nature Conservancy	Lower Columbia	Willamette	Wildlife	Both	Capitalize permanent easement	Land acquisition requirements <sup>b</sup>



Proposal Number	Title	Sponsor	Province	Subbasin	Type	Preliminary Capital Expense Category	Initial BPA (Finance) Capital/Expense Determination (Subject to final review)	Primary Uncertainty for Capitalization
	Upland Prairie and Oak Habitat, Willamette Subbasin							
200727100	Willamette Basin Capitalized Wildlife Land Acquisitions	The Confederated Tribes of Grand Ronde	Lower Columbia	Willamette	Wildlife	Both	Capitalize land acquisition	Land acquisition requirements <sup>b</sup>
200727600	Idaho Department of Fish and Game Rearing Expansion for Snake River Sockeye Salmon	Idaho Department of Fish & Game	Mountain Snake	Salmon	Anadromous	Both	Capitalize hatchery purchase and remodel	None
200731600	McKenzie Canyon Irrigation Project	Deschutes River Conservancy	Columbia Plateau	Deschutes	Anadromous	Both	Capitalize pipeline installation	None

For more information, see BPA's capital policy at:

[http://www.efw.bpa.gov/Integrated Fish and Wildlife Program/FW%20Capitalization%20Policy%2011-4-04.pdf](http://www.efw.bpa.gov/Integrated_Fish_and_Wildlife_Program/FW%20Capitalization%20Policy%2011-4-04.pdf)

**(a) Functional Interdependence** – Project (>\$1million) can be capitalized if the components (<\$1million each) are so closely connected that each could not function independently.

**(b) Land Acquisition Requirements** – Land purchases may be capitalized if the project meets several requirements related to the purpose and timing of the acquisition and the location and ownership of the land.

**Table 2. Results of BPA's Initial Capital/Expense Review: Expense Projects (subject to final review)**

<b>Proposal Number</b>	<b>Title</b>	<b>Sponsor</b>	<b>Province</b>	<b>Subbasin</b>	<b>Type</b>	<b>Preliminary Capital Expense Category</b>	<b>Initial BPA (Finance) Capital/Expense Determination (Subject to final review)</b>
1993 0660 0	Oregon Fish Screens Project	Oregon Department of Fish & Wildlife (ODFW)	Columbia Plateau	John Day	Anadromous	Capital	Expense - fish screens not functionally interdependent
1994 0150 0	Idaho Fish Screening and Passage Improvements	Idaho Department of Fish & Game	Mountain Snake	Salmon	Anadromous	Capital	Expense - fish screens not functionally interdependent
1996 0110 0	Walla Walla Juvenile and Adult Passage Improvements	Confederated Tribes of the Umatilla Indian Reservation	Columbia Plateau	Walla Walla	Anadromous	Both	Expense tentative - still under review at this time (functional interdependence issues)
1996 0400 0	Mid-Columbia Coho Restoration Project	Yakama Confederated Tribes	Columbia Cascade	Wenatchee	Anadromous	Both	Expense until completion of Step 3
1996 0420 0	Restore and Enhance Anadromous Fish Populations and Habitat in Salmon Creek	Colville Confederated Tribes	Columbia Cascade	Okanagan	Anadromous	Both	Expense - not > 15 year life
1998 0170 0	North Fork/Mid-John Day Fish Passage Improvement	Monument & Wheeler SWCDs	Columbia Plateau	John Day	Anadromous	Both	Expense - Not functionally interdependent

<b>Propo sal Num ber</b>	<b>Title</b>	<b>Sponsor</b>	<b>Provin ce</b>	<b>Subba sin</b>	<b>Type</b>	<b>Prelim inary Capita l Expen se Categ ory</b>	<b>Initial BPA (Finance) Capital/Expens e Determination (Subject to final review)</b>
1998 0180 0	John Day Watershed Restoration	Confederated Tribes of Warm Springs Reservation of Oregon	Colum bia Plateau	John Day	Anadr omous	Capit al	Expense - small independent projects not capital
1998 0210 0	Hood River Fish Habitat	Confederated Tribes of Warm Springs Reservation of Oregon	Colum bia Gorge	Hood	Anadr omous	Both	Expense - small independent projects not capital
1999 0190 0	Restore Salmon River (Challis, Idaho)	Custer County Soil & Water Conservation District (SWCD)	Mount ain Snake	Salmo n	Anadr omous	Both	Expense -No anadromous fish crediting to meet requirements
2001 0330 0	Hangman Restoration Project	Coeur D'Alene Tribe	Interm ountai n	Spoka ne	Resid ent	Both	Expense -No resident fish crediting to meet requirements
2002 0250 1	Yakima Tributary Access & Habitat Program	South Central Washington Resource Conservation and Development	Colum bia Plateau	Yakim a	Anadr omous	Both	Expense - small independent projects not capital
2002 0450 0	Coeur D'Alene Fish Habitat Acq	Coeur D'Alene Tribe	Interm ountai n	Coeur d'Alene	Resid ent	Both	Expense -No resident fish crediting to meet requirements
2006 0010 0	Mcintyre Dam Feasibility Study	Colville Confederated Tribes	Colum bia Cascade	Okano gan	Anadr omous	Both	Expense - Planning costs<\$1M, Construction costs could be capitalized if

<b>Propo sal Num ber</b>	<b>Title</b>	<b>Sponsor</b>	<b>Provin ce</b>	<b>Subba sin</b>	<b>Type</b>	<b>Prelim inary Capita l Expen se Categ ory</b>	<b>Initial BPA (Finance) Capital/Expens e Determination (Subject to final review)</b>
							>\$1M
2007 0570 0	Potlatch River Basin Conservation Easement	Potlatch Corporation	Mount ain Snake	Clear water	Anadr omou s	Both	Expense -No anadromous fish crediting to meet requirements
2007 0850 0	UPA Nason Creek Oxbow Reconnection Project	Chelan County Natural Resources Department	Colum bia Casca de	Wenat chee	Anadr omou s	Both	Expense - not construction
2007 1700 0	South Fork Snake River Yellowstone cutthroat trout recruitment and survival improvement	Idaho Department of Fish & Game	Upper Snake	Snake Headw aters	Resid ent	Both	Expense - fish screens not functionally interdependent
2007 2680 0	Idaho Watershed Habitat Restoration Project via Custer Soil and Water Conservation District	Custer County Soil & Water Conservation District (SWCD)	Mount ain Snake	Salmo n	Anadr omou s	Both	Expense - small independent projects not capital