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Washington

July 2, 2013

DECISION MEMORANDUM

TO: Council members

FROM: Sharon Ossmann

SUBJECT: Decision to adopt Fiscal Year 2015 and Fiscal Year 2014 Revised budget

PROPOSED ACTION:

Staff is recommending that the Council approve adoption of its draft Fiscal Year 2015 and Fiscal Year 2014 Revised budget. Staff also recommends that the Council authorize reprogramming of available Fiscal Year 2013 funds for unanticipated Fiscal Year 2013 costs such as increased operating and contracting costs.

SIGNIFICANCE:

As part of its annual budget development process, the Council provided a 51- day public comment period on its draft budget. Interested parties were given an opportunity to request consultations with staff and submit written comments on the draft budget between May 9, 2013 and June 28, 2013. An opportunity for oral comment was provided at the June 11-12 Council meeting in Missoula, Montana.

BUDGETARY/ECONOMIC IMPACTS:

The funding necessary for the Council to carry out its activities and responsibilities under the Northwest Power Act is provided by the Bonneville Power Administration based on the Council's adopted budget. The Council adopts its budget in July or August of each fiscal year and forwards the adopted budget to Bonneville for inclusion in its budget transmittals to Congress.

BACKGROUND:

In 2011, the Council entered into an agreement with Bonneville to hold the budget at reduced levels for the fiscal years 2013-2015 rate case period. The Fiscal Year 2014 Revised budget is \$10,565,000, an amount under the level proposed in that agreement. The projected FY2015 budget of \$10,794,000 is \$4,000 under the budget agreement amount.

The Council received one written comment (attached) regarding the Council's statutory budget limit. Staff review of the budget cap based on Bonneville's forecast of firm power sales as provided on April 19, 2013, indicate the proposed budgets for Fiscal Year 2015 and Fiscal Year 2014 Revised are below the maximum firm sales forecast limitation as defined by the Act.

ANALYSIS:

The Council's FY2014 revised budget of \$10,565,000 is \$206,000 higher than the Fiscal Year 2014 budget level adopted last year. This budget reflects an increase of \$282,000 (2.74%) from the Fiscal Year 2013 current operating budget. The increase represents addition of one staff position in the power division to assist with the resource portfolio model, inflationary increases in the cost of personal services and benefits, and anticipated increases in contracting activities.

The proposed Fiscal Year 2015 budget of \$10,794,000 is \$229,000 (2.17%) higher than the revised Fiscal Year 2014 budget. This increase reflects the anticipated increase in personal services and benefits costs, and an anticipated decrease in contracting expenditures.

ALTERNATIVES:

1. Adopt the draft Fiscal Year 2015 and Fiscal Year 2014 Revised budgets. This is the recommended action.
2. Defer adoption until the September Council meeting. Direct staff to identify additional cost reductions or funding requirements for consideration. Present a revised draft budget at the August Council meeting.

ATTACHMENTS:

Written comment regarding the budget.

Copies of the budget are available online and hard copies will be available at the meeting.

Date: June 28, 2013
To: Mr. Stephen L. Crow, Executive Director
Northwest Power and Conservation Council
851 S.W. Sixth Ave.,
Suite 1100, Portland, OR 97204
Attn: Sharon Ossmann, Director
Administrative Division
Email: sossmann@nwcouncil.org
From: Charles Pace
Email: charlespace@gorge.net
Re: Comment on Council Document 2013-06

I am writing in response to the May 9, 2013, notice to citizens of the Northwest from Mr. Stephen Crow, Executive Director of the Northwest Power and Conservation Council, that the Council is seeking written comments on Document 2013-6, the DRAFT FISCAL YEAR 2015 BUDGET AND FISCAL YEAR 2014 REVISIONS, which is available online at <http://www.nwcouncil.org/reports/financial-reports/2013-06/>, for consideration at its upcoming meeting in Seattle, Washington, scheduled for July 9 thru 11. By way of introduction, my comment focuses on the continuing disconnect between statutory limits the 96th Congress of the United States placed on the amount of annual funding that the Administrator and CEO of Bonneville has discretion under law to provide for support of the Council's functions and expenses versus the amount that the Bonneville Power Administration ratepayers have actually been required to provide.

The statutory language in the Pacific Northwest Electric Power Planning and Conservation Act of December 5, 1980, as amended, imposes clear, unambiguous limitations on the Council's spending. Specifically, subparagraph 4(c)(10)(A) limits the annual amount of funds that the Administrator can provide for the Council's compensation plus expenses to, at most, .02 mill multiplied by the number of kilowatt hours of firm power that the Administrator forecasts Bonneville will sell during the funding year. This limitation may be exceeded if the Council makes a showing that the .02 mill limitation set forth in subparagraph 4(c)(10)(A) will not permit it to carry out its lawful functions and responsibilities under the Act. The relevant language in the Act is as follows:

[U]pon an annual showing by the Council that such limitation will not permit the Council to carry out its functions and responsibilities under this chapter the Administrator may raise such limit up to any amount not in excess of 0.10 mill multiplied by the kilowatt hours of firm power forecast to be sold by the Administrator during the year to be funded.

16 U.S.C. 839b(c)(10)(B), emphasis added.

As the Council should be aware, Bonneville's forecast of monthly (and average) total power sales contracts, which includes sales to preference and legacy customers, for

FY2014-2015 are presented in Table 1.2 of the document titled "Power Loads and Resources Study Documentation," which Bonneville's staff included in its Initial Proposal for the BP-14 rate case. More specifically, in developing proposed rates, Bonneville forecasts that, on average, total power sales contracts per month will be 7,638 aMW during FY2014 and 7,836 aMW during FY2015, respectively. See B-14-E-03A-2, p. 8-9, available online at <http://www.bpa.gov/Finance/RateCases/BP-14RateAdjustmentProceeding/Pages/Initial-Proposal.aspx>.

These are the actual forecasts presented in rate case whereas the estimates that the Council relies upon in its draft FY2015 budget document, and its revisions to for FY2014, are made out of whole cloth, i.e., based on ceremonial fictions created solely for the purpose of providing cover for the agreement by the Administrator and the Council to divert a greater amount of ratepayers' contributions to the Bonneville Fund for support of the Council than is permitted under law. See, for example, Council Document 2013-06, page 3, and Appendix C, page 67.

Since one megawatt equals 1,000 kilowatts and \$1.00 equals 1000 mills, it follows that, absent a showing by the Council that the .02 mill limitation Congress imposed in subparagraph 4(c)(10)(A) of the Northwest Power Act will not permit it to carry out its functions and responsibilities, the Administrator is statutorily restrained to provide no more than \$1.338 million and \$1.373 million in annual funding during FY2014 and FY2015 respectively. The Council's draft fiscal year 2015 budget of \$10.794 million exceeds the statutory limitation in subparagraph 4(c)(10)(A) of the Northwest Power Act by about \$9.421 million. And the Council's FY2014 revised budget of \$10.565 billion exceeds the statutory limit in subparagraph 4(c)(10)(A) by \$9.227 million. Put somewhat differently, the combined "hit" on BPA ratepayers for FY2014-15 over and above the maximum amount allowed by law equals about \$18.648 million.

Now, as I indicated above, notwithstanding the statutory limitations in subparagraph 4(c)(10)(A), under subparagraph 4(c)(10)(B) of the Act, the Administrator has discretion to provide up to five times, i.e., 500 percent, of \$1.338 million during FY2014 and \$1.373 million during FY 2015, but only if the Council makes an annual showing that additional funding is necessary to support the Council's functions and expenses, which the draft FY2015 budget and the FY 2014 budget revisions fail to do. If, however, the Council is able to revise Document 2013-06 to make the requisite showing for funding under subparagraph 4(c)(10)(B) of the Northwest Power Act, the Administrator would be permitted to provide annual funding in FY 2014 of about \$6.691 million and, for FY2015, approximately \$6.864 million. For FY2014-15 together, this amounts to about \$12.555 million, which is \$8.804 million less than the funding levels provided for in the draft budget for FY2015 and the revised budget for FY2014. In short, assuming that the Council is able to make the showing required by subparagraph 4(c)(10)(B) of the Act, in order to stay within the statutory limits, it should reduce the combined funding level for FY 2014-15 by about 41 percent.