

Independent Economic Analysis Board Meeting Notes

July 29, 2015

Members Present	Members Absent	Guests
Terry Morlan		Tony Grover
Bill Jaeger		Jim Ruff
Roger Mann		Mark Fritsch
JunJie Wu		Karl Weist
Noelwah Netusil		

1. *Greetings and Introductions.*

Chair Terry Morlan welcomed everyone to today's meeting of the Independent Economic Analysis Board, held July 29, 2015. This was a phone meeting. The following is a summary (not a verbatim transcript) of the topics discussed and decisions made at this meeting. Anyone with questions or comments about these notes should contact Tony Grover at 503-222-5161.

The minutes from the IEAB's April 16, 2015 meeting were amended and approved.

2. *Working Session on Task 211.*

Morlan said that the main item of business today was a group discussion of the draft Task 211 report. We need to know whether people think we're headed in the right direction, he said; the report is in pretty good shape, but there may be opportunities to improve it. I would be interested in knowing if Council staff feels we're under pressure to get something out there quickly, as well as the budgetary status of this project, he added.

A lot of things have changed since we last met; there's a good chance we may be running a project solicitation on the emerging priorities, the seven enumerated topic areas the Council perceived as high priority, in the new program, this fall, Grover replied. I would suggest that we need to finalize the report by mid-September, so that we can include the IEAB's recommendations in the solicitation. One area is O&M, said Grover; we would like to solicit a hatchery expert who can help Bonneville do an on-site assessment of what facilities should be included in a long-term O&M plan. Second is adaptive management, which we're handling in-house. The third area is toxic contaminant mapping and invasive species; the fourth is Chief Joseph-Grand Coulee

reintroduction of salmon; the fifth is additional measures for sturgeon and lamprey; the scope of number 6 is an update of subbasin plans in most need of updating, which is unknown at this time; number seven is a mapping project to improve flood plain habitat in the basin. In other words, it's likely to be a pretty broad-ranging solicitation, which will likely go out in October, Grover said. That's why we need the IEAB report by mid-September, and why we would like to include the IEAB's recommendations in the solicitation, Grover added.

In terms of budget, we initially allocated about 200 hours on the task; I have spent about 40 hours on it personally, Morlan said. Mann said he had spent 46 hours. After a few minutes of discussion, it was agreed that the IEAB still has time and budget available to do additional work on Task 211. In response to a question from Mann, Fritsch said the first item is to retain someone to interact with BPA and Council staff to develop an overview of fish screens and other capital facilities at various hatcheries that could then be loaded into an analytical tool; it is anticipated that about \$20,000 per facility will be available to conduct this work

With respect to number 5, is that likely to cover screening and diversion work for sturgeon and lamprey? Mann asked. Not initially, Fritsch replied; we received a lot of comments during the most recent program development that we need to put more emphasis on sturgeon and lamprey, particularly regarding flow and passage through the mainstem. Most of the existing facilities were designed for salmonid passage, rather than lamprey passage, he explained.

Finally, what is going on with respect to the long-run cost accounting for wildlife lands projects? Mann asked. Not much at the moment, but around January, we will want to be prepared to discuss the IEAB's recommendations regarding long-term O&M for those projects, Grover replied.

Morlan said that, in his opinion, recommendations 3 and 4 need some additional work, as does the schematic box diagram – one thing I was thinking was that we should make sure the labels in that diagram match better with the various cost categories we discuss, Morlan said. We need to discuss how long-term costs factor in, he added – that may be one way to tie the diagram into the paper more explicitly. Perhaps the diagram could be simplified or consolidated, Wu suggested – it's quite long presently. Is there a way to obtain feedback from the people who would actually be going through this process? Netusil asked. If we had more time, that would be a good idea, Morlan replied. We may want to change the name of the diagram to "An example of a decision tree," so that people understand that it can be customized, Grover suggested.

Morlan suggested that recommendation 4, covering a trust fund or set-aside that could be used for emergency requests, mirrors what is being done in Idaho and the Willamette, for example. That's an important recommendation, he said, and I would suggest that we need to flesh it out in a little more detail. What we have currently is a tremendous amount of uncertainty in the region regarding unexpected repairs and emerging needs, Netusil said; if problems occur, there is a lot of uncertainty as to how

emergency needs will be addressed. Introducing certainty, in the form of a long-term O&M fund that is separate from agency budgets, is highly desirable. It would be very useful if the report could explain why what we're suggesting would be an improvement. It was suggested that Bonneville might provide at least part of the funding for such a trust account as an annual set-aside; BPA already contributes to the Idaho and Willamette trusts.

One other thing, said Morlan – there is language in the current draft of the report regarding facilities that have fixed O&M costs, and the idea that they would not have to submit an annual budget for inclusion in the BPA rate case. Should that language be inserted here? It would certainly be beneficial to discuss alternative designs for this fund – how funding might be built up through various set-asides and other mechanisms. Grover said he will circulate the Southern Idaho and Willamette settlement agreements for IEAB review.

The group discussed potential funding mechanisms for such a trust fund, noting that the ideal would be to set up the fund in such a way that projects are funded out of the interest only, the principal remains untouched, and the fund is thus able to continue in perpetuity. Grover suggested that it may make sense to establish multiple trust funds – one for hatcheries, for example, and one for fish screens. The Southern Idaho example probably makes more sense than the Willamette example, suggested Weist.

If we're thinking about having separate contingency funds for, say, hatcheries vs. screens, that may not be the best way to set up a fund for unanticipated costs, Jaeger said. The idea is that these costs are unanticipated, and the fund will be used to address different needs in different years. You might have a large contingency fund that is idle in most years, if you set funds aside just for screens or just for hatcheries. There is also the moral hazard problem – to what extent would these funds reduce the incentive for project proposers to anticipate these potential issues themselves – in other words, to encourage them to be more lax in their planning? he said.

That's a very interesting question, Grover said – knowing that there is a downside, or consequence, for lax planning, or failure to plan, is probably beneficial. I understand what Bill is saying, but the other side of the coin is that if project owners start looking at it like, say, a use-it-or-lose-it water right, it could encourage false claims, noted another participant.

The group devoted a few minutes of discussion to this issue; Jaeger suggested that the first four recommendations fit together pretty well. One question, though, is who would be responsible for making sure the funds were used wisely, and making sure this work is done? It comes down to whether the entities or individuals who are currently responsible for these projects feel that this approach would be beneficial, Jaeger said. Grover noted that the traditional approach has led to various crises over the years; there are some real, tangible hatchery assets that need to be maintained, despite current financial constraints, he said. I don't think BPA realized this was a problem until very recently – the last two or three years, he added. They now recognize that it's a problem,

and they'd better get on top of it. There is a tremendous amount of pressure from ratepayers for BPA to run a tight ship – this is the largest freshwater restoration effort in the world, and it has a tremendous number of physical assets, from lands to juvenile counting facilities to screens. There's a ton of equipment, a ton of capital investment out there, and I think it shocked BPA when they realized it, said Grover. They now understand that long-term O&M for these facilities is a major issue, he added.

How specific do we need to be in terms of recommending funding designs? Wu asked. Do we need to make some general suggestions, or should we spend time developing specific design recommendations? There will be a lot of negotiation between BPA, the Council, project sponsors and others, Grover said. However, some real, hard-hitting, specific recommendations will likely be the heart of our report – a concise up-front section that people will grab and plug into their asset management plans, databases, and trust fund agreements in the future. I think JunJie is correct that the greatest, long-term benefit of this report is straight-up, simple recommendations with some very specific examples, Grover said. There was general agreement that an approach that includes an up-front executive summary of key recommendations, with specific examples and other source materials, followed by a more detailed explanation of why the recommendations were made in the body of the report, makes sense.

The group devoted a few minutes of discussion to the exact wording of the recommendations in the report. Among the highlights:

- Don't spend five years discussing or fine-tuning the approach to this issue – just get this done.
- The report needs to make a distinction between a trust fund for recurring costs that can be anticipated, and a contingency fund for emergency incidents that cannot be anticipated (except statistically), such as wildfires. The question is whether maintenance expenditures that can be anticipated should be addressed through the annual budget process; there was general agreement that the primary focus of the recommendations should be unanticipated costs, non-recurring maintenance and replacement costs.
- Idaho calls its trust a “dedicated endowment fund.”
- Jaeger developed suggested wording for Recommendation 4, and emailed it to the other IEAB members, noting that, in his view, a simpler approach is best. There was general agreement that his suggested wording hit the mark.
- Mann noted that unanticipated costs, non-recurring maintenance and replacement costs tend to be “lumpy,” and represent the primary concern this report is intended to address.
- Does this apply to Corps and Bureau projects? Ruff asked. No, Morlan replied, and we need to be specific about that.
- Mann offered some specific wording regarding the types of projects that would be covered under the endowment fund and distributed it to the other IEAB members, including asset damage protection (vandalism prevention) costs.
- There was general agreement that it probably isn't desirable to include language suggesting that surplus equipment and facilities might be sold for salvage value,

with the proceeds applied to the Fish & Wildlife Program. We probably don't want to belabor that concept in the text or the decision tree, Morlan suggested.

- It was agreed to provide a couple of examples of potential responses to the questionnaire, with the caveat that the questionnaire may be customized for specific project types.
- The possibility of hiring someone with financial expertise to develop the details of this project, who could work with the biologists who aren't necessarily experts in this type of economic analysis, was suggested. A cost accountant's salary would be less than 2/100ths of a percent of the overall Fish and Wildlife budget, Jaeger said – that seems like a no-brainer to me. I would love to see that as a standalone recommendation 5, Grover said. I think that would be really, really helpful.
- The group discussed how to address the potential need for a contingency fund strictly for recurring O&M; Morlan said that, to him, that isn't a part of recommendation 4. We can continue to discuss it in the context of recommendation 3, he said, but it may make more sense to address predictable O&M costs through the annual budgetary processes. There was general agreement to take this discussion out of Recommendation 4 and put it into Recommendation 3.

Mann said he will work further on the decision tree and will incorporate the other edits agreed to during today's meeting. He said he should be able to circulate a revised draft of the report within a week. Wu said he will work with Mann to edit the wording for Recommendation 4. Jaeger said he will draft the new Recommendation 5 regarding the hiring of a cost accountant to oversee the development of economic analysis surrounding long-term O&M needs.

3. *Update on Council Activities.*

Bill Booth asked to meet with me on August 4, said Morlan; he wanted me to talk to the O&M subcommittee. Are we at a point now where you're comfortable with me talking to them about our recommendations? Yes, as long as you characterize them as tentative or preliminary recommendations, was the consensus. Mann said he will provide the revised draft of the report before August 4. Morlan said he will put together a set of talking points and will circulate them for IEAB review prior to the August meeting. Mann said he will summarize the five recommendations as he heard them at today's meeting in an email.

Grover noted that the Council is moving forward faster than many anticipated in implementing the emerging priorities. We're doing four things at once: identifying the activities that need to happen to address those emerging priorities; developing a draft set of processes to implement a solicitation or RFP process; attempting to nail down possible funding sources, including the new cost savings methodology the Council adapted in its last full meeting; and the big question: what rolls out first, what work should commence immediately, and which projects should be deferred until opportunity

and resources permit. I will send you all a copy of the packet we're putting together for the committee, to give you a sense of how your work fits into the bigger picture, Grover added.

We have also talked about the fact that this is a terrible year for fish, with poor passage conditions, high temperatures throughout the mainstem, and very poor ocean conditions, Grover said. The El Niño has settled in, and we're facing a test like no one has ever seen before – the combination of low flows and high temperatures is unprecedented, and the resiliency of our Fish & Wildlife Program is being tested like never before. Are we seeing the long-term effects of global warming, and if so, how can we address that issue? Grover asked.

Grover spent a few minutes discussing the ongoing NOAA effort to define common goals for all 219 listed and non-listed species in the basin. We'll discuss this further once we see how that process comes together, he said.

4. *Next IEAB Meeting Date.*

The next meeting of the Independent Economic Analysis Board was set for late August (date TBD). Meeting summary prepared by Jeff Kuechle, NWPPC contractor.