



Bonneville Power Administration

Summary of public comments to BPA on Fish and Wildlife Program budget

September 16-17, 2008

Northwest Power & Conservation Council Meeting

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Integrated Program Review Process

Purpose of Integrated Program Review:

- Present all BPA's costs (Power, Transmission and Agency Services), both expense and capital, in one forum.
- Allow stakeholders to comment on:
 - Proposed changes to FY 2009 spending levels from those determined in the 2006 Power Function Review and included in the 2007-2009 rate filing.
 - Proposed spending levels for the FY 2010-2011 period.
 - Proposed capital investment levels for all programs for the FY 2009-2013 period.

Integrated Program Review Parameters:

- The rate case is a formal hearing process, with a Hearing Officer, which sets rates based on costs. The Integrated Program Review (IPR) is a collaborative informal process designed to lay out the major program costs and seek customer feedback and suggestions for each program area prior to BPA's decisions on program levels to be included in rates.
- Input received in the IPR informs BPA's decisions on the program levels to be included in the 2009 Supplemental Power Rate Case and the upcoming 2010-2011 Power Rate Case. Program funding levels will not be revisited in the two rate cases.



Sequence of Events for IPR

- The first several workshops focused on costs to be included in Power rates, both for FY 2009 and FY 2010-2011, with emphasis on the FY 2009 costs.
- In early June, BPA released a draft letter describing tentative decisions on FY 2009 Power costs.
- There was a 2-week comment period on that letter, after which BPA made decisions for FY 2009 costs. Those decisions were announced in July.
- During June, workshops continued on Power costs for FY 2010 and FY 2011 and capital expenditures through FY 2013.
- A draft letter on FY 2010-2011 costs was sent out in July, with an accompanying July 7-August 15 comment period. Decisions on FY 2010-2011 costs will be announced in September.



Fish & Wildlife Direct Program

\$ in Thousands	Actuals		SOY	Rate Case Average	Rate Case	IPR	IPR	IPR
	FY 2006	FY 2007	FY 2008	FY 2007-09	FY 2009	FY 2009	FY 2010	FY 2011
Program Level Spending	137,900	139,500	143,000	143,000	143,000	200,000	230,000	236,000
Increase/Decrease *		1,600	3,500		0	57,000	30,000	6,000

* for FY 2006-2008, Rate Case FY 2009, 2010 and 2011, change is from the prior year. For FY 2009 Forecast, change is calculated from "Rate Case".

Program Background:

This program represents BPA's Direct Fish and Wildlife Program which manages projects intended to meet BPA's mitigation objectives under the Northwest Power Act, consistent with the Northwest Power and Conservation Council, as well as BPA's Endangered Species Act offsite fish and wildlife requirements under biological opinions from the U.S. Fish and Wildlife Service and National Oceanic and Atmospheric Administration (NOAA) Fisheries.

Drivers of Change:

- New Biological Opinions require increased costs for hydro system operations, habitat restoration, research, monitoring and evaluation.
- The 2008 Columbia Basin Accords, agreements with States and Tribes on Fish and Wildlife costs, include some costs necessary for implementing the Bi-Op, but also have incremental costs. These agreements benefit the agency and the region, by: moving key players from adversaries to partners, ending years of divisiveness; including accountability for results; including defined biological objectives, so that the actions will be measured for their effectiveness against those objectives; providing known costs which will mean more stable rates. The projects are expected to produce biological benefits and cost less than litigation.
- These increased costs are partially offset by 4(h)(10)(C) credits, which in essence reimburse BPA for the portion of these costs that are attributable to non-power purposes of the FCRPS.



IPR Comments (on FY09 Proposed Budget)

Summary of Comments Received:

- Uncertainties surrounding the Council Program, MOAs, BiOp, and other elements of BPA's fish and wildlife budget should not be an avenue for additional budget increases beyond those proposed for FY 2009.
- In addition to costs for BiOp, MOAs, LSRCP and current F&W program budget, BPA should budget sufficient dollars to fund the unmet needs identified by the Council in its FY 2007-2009 recommendations
- BPA should carefully review its proposed increases and look for duplicate efforts or items that are not required. Results need to be results oriented.
- Customers support a long term budget for the fish and wildlife direct program and believe that this is important for all parties.
- We are in support of the MOAs.
- Some projects are currently funded by rate payers that have little relation to the effects of hydropower construction and operation and should be funded through other sources or eliminated. Funding should be seen as comprehensive for both fish and wildlife and the proposed budget should not increase beyond its current limit.
- Customers request that BPA perform an analysis of whether it is appropriate to apply the inflation adjustment to the entire direct program, or only that portion of the program that is truly subject to inflation.
- Most of the FY 2009 increase is targeted to fund projects identified in the MOAs and elements of the BiOp. While the value of these projects is not disputed, much of the funding will not go toward making the BiOp sufficient to restore endangered salmon and steelhead nor satisfy BPA's obligations in this arena.
- We urge you to resolve the growing disparity between resident and anadromous fish mitigation funding.
- Consider funding list of WDFW projects that it considers as either critical or essential, within the FY 2008-2009 funding decision, or necessary projects to begin to implement the recent BiOp in FY 2009.



BPA Response

- BPA's proposed spending levels reflect the funding increases needed in FY 2009 for implementing both the new FCRPS BiOp and the Columbia Basin Fish Accords, without reducing funding for the other non-BiOp and/or non-Accord elements of the Program.
- While the magnitude of these funding increases is unprecedented in nature, BPA believes these increases are critical for successful implementation of an all-H (hydro, habitat, hatchery and harvest) set of strategies for ESA compliance and recovering ESA-listed salmon and steelhead.
- BPA acknowledges that it has proposed this very significant Program spending increase ahead of developing detailed "statements of work" for these new project commitments. To that end, BPA is committed to ensuring adequate independent science review and project scoping, including appropriate adjustments as necessary and agreed-upon with Accord signatories.
- With respect to suggestions to fund additional projects, some of these suggestions have been made previously, and BPA has responded to them previously, such as within its FY 2007- 2009 funding decision and a December 31, 2007, response letter to the Columbia Basin Fish and Wildlife Authority.
- As far as new work not previously suggested, BPA believes that while there will always be an interest in funding for additional new projects, there is substantial opportunity and flexibility within the existing Program and its base \$143 million spending level to fund appropriate additional work by rededicating funding as some projects reach their natural end and by leveraging potential efficiency gains from upcoming Council-led reviews of parts of the current program.
- In addition, the Council's new High Level Indicators initiative has the potential to drive reform of the region's research, monitoring and evaluation efforts, thereby creating further spending flexibilities.



BPA Decision on FY09 F&W Program Budget

- Taking into account all the drivers that led to BPA's initial FY 2009 budget proposal in the IPR, BPA believes that it is appropriate to increase the Fish and Wildlife Program expense and capital budgets to \$200 million and \$50 million, respectively, as proposed in the initial IPR numbers for FY 2009.
- These increases will: 1) make good on commitments/actions reflected in the new BiOp and Fish Accords; while 2) not reducing funding to other projects which provide important mitigation benefits relative to BPA's Power Act obligations. BPA notes that, in addition, there are sufficient tools and flexibilities within the existing Program to redirect funding to other projects, assuming support for doing so exists among program stakeholders.
- BPA acknowledges, however, that there are many new budget management complexities as well as policies that will need to be developed, and important unanswered questions that still need to be addressed given the new Biological Opinion and Fish Accords and the related significant Program increase in FY 2009.
- During autumn 2008, BPA will develop an overall Fish and Wildlife Program budget management plan in coordination with the region, with opportunity for input and comment, to address these questions, issues and policies.



BPA Customer Comments on FY10-11 F&W Budget

- BPA needs to set a schedule for development and implementation of a budget management plan, to address how the Northwest Power and Conservation Council (Council) Program, Memoranda of Agreement with States and Tribes, (MOAs), a new biological opinion (BiOp), and other elements of BPA's fish and wildlife budget will be integrated and managed.
- Customers would like to see BPA work closely with the Council to ensure a comprehensive program review that involves the Independent Scientific Review Panel (ISRP).
- Research, monitoring and evaluation, which currently account for nearly 40 percent of the Council's overall fish and wildlife budget need to undergo rigorous scrutiny.
- There are projects currently funded by ratepayer dollars that have little relation to the effects of hydropower construction and operation and should be funded through other sources or eliminated.
- Excepting BiOp and MOA commitments, if projects do not meet scientific review or if for any other reason the program cannot spend its budget in a fiscal year, the unspent funds should not be available for funding projects in the future.
- Funds for projects that are included in the BiOp need to be available until a project is proposed to secure the benefits and that project meets with scientific and Council approval.
- BPA's customers recommend that the current requirements for ISRP review be continued for all projects funded by BPA. This is not only consistent with the Northwest Power Act but also provides the necessary independent scientific review that BPA customers need for assurance that ratepayer funds are spent effectively and efficiently.
- BPA customers support a long term capped budget for the fish and wildlife direct program and believe that this is important for all parties. For BPA's customers the cap provides some level of cost certainty and for the Fish and Wildlife program funding recipients this provides budgeting certainty.
- BPA has proposed to set a total budget for the Fish and Wildlife direct program that will increase over time with a 2.5% yearly inflation factor whether or not the underlying growth of program costs are increasing at this rate. Customers are uncomfortable with the automatic inflation adjustment and would like greater detail on how and when BPA plans to address the issue of a budget cap.



General Feedback on Overall BPA FY10-11 Costs

In a meeting of BPA utility customer General Managers, BPA received some general comments on overall spending levels for FY 2010-2011.

- Participants felt overall Agency costs in FY 2010 and 2011 are too high.
- Participants expressed a desire to see the rate impact of the program costs and cited a need to begin preparing their customers for the upcoming rate increases.
- Participants were interested in how the programs and spending levels relate to the overall strategic plan – that is, how the line-item costs connect with BPA's strategy.
- Participants are concerned about constrained capital (due to BPA's borrowing authority ceiling) and expressed a desire to start regional discussion now on potential solutions.
- The General Managers who attended also requested additional information about possible alternative program levels and how these changes would affect BPA's ability to provide services.
- More specifically, they wanted to know what proposed increases in spending would pay for and what would not be completed if proposed spending were reduced.
- In response, BPA is providing scenarios for each program – one that explores the impacts of a 10 percent increase and one that explores the impacts of a 10 percent decrease in proposed program spending levels.



Implications of a 10% Decrease/Increase in Program Spending

Assumption: Given that the Biop and Fish Accord commitments are firm, the +/-10% would be applied to the non-Biop and non-Accord portion of the Program

- For FY09-11, per a BPA analysis of BPA's IPR-proposed F&W Program budget, estimated total spending on non-Biop/non-Accord projects would be about \$46-50M.

Implications of a 10% reduction:

- In BPA's response to the initial FY09-focused comments in the IPR, BPA indicated its proposed (FY09) spending level reflected the funding increase needed for meeting Biop/Fish Accord commitments *without reducing funding for the other non-Accord and non-Biop elements of the Program*.
- A significant portion of the non-Accord/non-Biop project portfolio covers the "carrying costs" for past investments (hatcheries, wildlife O&M, etc), so a \$5M reduction would largely need to come from discretionary RM&E, data mgt and coordination, which in combination represents \$16-18M of the \$46-50M total.

Implications of a 10% increase:

- If the non-Accord/non-Biop portion of the Program budget was increased \$5M/yr, this could allow for funding of previously proposed but currently unfunded new projects. However, many of these previously proposed projects fall into the monitoring and evaluation category, and initiating new projects in this category, ahead of the Council's categorical review process, the refinement and application of the HLIs, and the integration of Biop/Council/F&W Co-Manager RM&E needs, would seem to be imprudent given that many regional leaders associated with these initiatives believe there are opportunities for efficiencies and savings.