



## Department of Energy

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

EXECUTIVE OFFICE

October 3, 2003

In reply refer to: KE-4

Ms. Judi Danielson, Chair  
Northwest Power and Conservation Council  
851 S.W. Sixth Avenue, Suite 1100  
Portland, OR 97204-1348

Dear Ms. Danielson:

As you know, the past year has been difficult for the Bonneville Power Administration (BPA) and the region. Over the last three years drought, variable power market conditions, and costs in excess of rate case projections caused BPA's financial position to deteriorate significantly. We raised power rates for 2002 an average of 43 percent over 2001 levels. In 2003 we triggered and completed a Safety-Net Cost Recovery Adjustment Clause rate case, resulting in yet another potential rate increase for FY 2004, despite reducing forecasted internal support and program spending for the remainder of this rate period by \$350 million.

In a December 10, 2002, letter to the Chairman of the Northwest Power and Conservation Council (Council), I asked the Council to ensure that the level of spending for the FY 2003 Fish and Wildlife Program not exceed \$139 million in accrued expenses. I very much appreciate the Council providing cash-management recommendations in February 2003 and I acknowledge that in that effort, BPA and the Council had to make difficult decisions that resulted in some disruption to the planning and management of the Program. However, the potential consequences of BPA's precarious financial circumstances warranted prompt decisions designed to preserve our ability to maintain the many benefits we provide the region. To that end, we have worked to apply to our fish and wildlife efforts the same business principles we use in fulfilling our power and transmission mandates.

Looking forward, we have an ongoing critical need in this and every other function to spend only what is absolutely required to meet our essential goals. BPA also has an interest in providing stability in the Fish and Wildlife Program. In an effort to provide clarity and predictability for the planning and management of the program, staff from the Council, the Columbia Basin Fish and Wildlife Authority (CBFWA) and BPA, with input from the Upper Columbia United Tribes (UCUT), have worked closely over the last several months to develop processes and protocols to be used for fish and wildlife spending for the remainder of BPA's current power rate period, FY 2004 through 2006.

I appreciate the collaborative approach of the Council, UCUT, and CBFWA staff in the development of these rules. There has been a great deal of time and effort spent in discussions to design a structure that addresses concerns raised by each party. This structure is consistent with recommendations contained within the June 3, 2003, letter from CBFWA to BPA and the Council. I believe these rules, together with BPA's current efforts to improve contracting and financial reporting, provide a good foundation for managing the Program in a way that is beneficial for all parties. They:

- Enable the Council, CBFWA and BPA to have common and current budget information;
- Improve BPA's ability to manage its financial operations and risk;
- Give contractors more certainty in the funding of work as well as flexibility in the timing of that work; and
- Promote effective project management.

The rules for the expense portion of the program are described in Enclosure A to this letter. The general structure establishes that accrued expenses for the program must be within an annual average of \$139 million for the period FY 2003-2006, and a total of no more than \$556 million for the four years. The accrued expense in any one year can fluctuate by up to plus or minus 10 percent of \$139 million, allowing a range between \$125 million and \$153 million for any year, provided the program is within the \$556 million total. We have included this range because we do not want to encourage the inefficiency of a "use it or lose it" spending approach and to ensure program objectives can be achieved.

We believe that as these rules are implemented, the result will be a more efficient process that facilitates the important work of the program and maximizes the effective application of program resources. While we cannot guarantee our revenue streams, our rates and budgets are based on funding this level of program activity. Only if there is a significant change in circumstances, and only after consultation with interested regional parties, would we expect to deviate from this process.

We know that there is and will continue to be substantial competition for the available program dollars. We expect to continue working with you to assure the effective achievement of program objectives while managing within the \$139 million average.

Work is continuing on developing budgeting rules that will guide fish and wildlife capital funding as part of our overall capital budgeting over the FY 2004-2006 period. Over the last year, BPA has developed principles that describe the application of BPA's accounting and capitalization policies to land acquisitions, and has taken the steps necessary to allow capitalizing land acquisitions that meet specific standards. I feel confident that we will be able to acquire additional habitats, if they meet the established principles including providing a measurable benefit against a clearly defined obligation.

We--BPA, Council and CBFWA-- have not yet determined how best to handle any "over- or under-funding" at the end of the current rate period in FY 2006 and going into the next rate period.

I acknowledge the importance of being very clear about the transition from one rate period to another. However, we would like to manage under this process for a year or so before determining the best way to manage this transition.

Although BPA thinks some aspects of the proposed budgeting process for FY 2003-2006 may be appropriate to apply beyond FY 2006, we do not assume this process dictates the rules for the post-2006 period. BPA is willing to explore the possibility of a broader, long-term Memorandum of Agreement on fish and wildlife costs for the post-2006 period, providing it includes a clear definition of BPA's obligations, outcomes to be achieved, cost effectiveness tests, and contemplates the ability to tie funding to BPA's financial health, so that funding adjusts in correlation to good and bad times.

Again, I appreciate the efforts that have been made on behalf of all participants in the Fish and Wildlife Program to help manage through BPA's difficult financial situation. I am confident the budget approach outlined can help support our continued partnership in the effective management of the program.

Sincerely,

*/s/ Stephen J. Wright*

Stephen J. Wright  
Administrator and Chief Executive Officer

Enclosure

cc:

Chairman Albert Teeman, Burns Paiute Tribe  
 Chairman Ernest Stensgar, Coeur d'Alene Tribe  
 Chairman Joseph Pakootas, Confederated Tribes of the Colville Reservation  
 Chairman Glen Nenema, Kalispel Tribe  
 Chairman Gary Aitken, Kootenai Tribe of Idaho  
 Chairman Tony Johnson, Nez Perce Tribe  
 Chairman Fred Matt, Confederated Salish & Kootenai Tribes  
 Chairperson Nancy Murillo, Shoshone Bannock Tribes of Fort Hall  
 Chairman Terry Gibson, Shoshone Paiute Tribes of the Duck Valley Reservation  
 Chairman Warren Seyler, Spokane Tribe of Indians  
 Chairman Gary Burke, Confederated Tribes of the Umatilla Indian Reservation  
 Chairman Garland Brunoe, Confederated Tribes of the Warm Springs Reservation  
 Chairman Ross Sockzehigh, Yakama Indian Nation  
 Mr. Rod Sando, Columbia Basin Fish & Wildlife Authority  
 Ms. Mary Verner, Upper Columbia United Tribes  
 Mr. Olney Patt, Jr., Columbia River Intertribal Fish Commission  
 Mr. Steve Huffaker, Director, Idaho Department of Fish and Game  
 Mr. Jeff Hagener, Director, Montana Department of Fish, Wildlife and Parks  
 Mr. Lindsay Ball, Director, Oregon Department of Fish and Wildlife  
 Dr. Jeff Koenings, Director, Washington Department of Fish & Wildlife

## ENCLOSURE A

### **BUDGETING RULES FOR THE EXPENSE PORTION OF BPA'S FISH AND WILDLIFE PROGRAM**

#### **Overview**

For the FY 2004-2006 period, the Northwest Power and Conservation Council (Council) will develop a multi-year project budget for BPA's Fish and Wildlife Program. The expense portion of this budget will not exceed an average of \$139 million per year. The project budget will reflect an amount of work that each project can accomplish between October 1 and September 30 of each year, and the associated spending plan for that work. The Council's multi-year budget will not exceed \$556 million for FYs 2003-2006 (an average of \$139 million per year).

#### **Features**

**\$139 million plus-or-minus 10 percent:** When the Council completes its recommendations for expense budgets, the budgets, together with actual expenditures for years already complete and the forecast for the not-yet-complete current year, should result in expenses for the FY 2003-2006 period that average no more than \$139 million per year. The expense in any one year can fluctuate by up to plus or minus 10 percent of \$139 million, allowing a range between \$125 million and \$153 million for any year, provided the program is within the \$556 million total. To the extent that expenses in any year are forecasted to exceed \$139 million, prior year actual expenses and/or out-year forecasts of less than \$139 million are required. To the extent work performed in one fiscal year results in associated spending of less than \$139 million, the difference between the expenditures and \$139 million may be made available for work performed in the subsequent fiscal year (within the plus-or-minus 10% band width, or \$125 million to \$153 million). So, for example, if work performed in FY 2004 resulted in expenditures of \$130 million, BPA may make available \$139 million plus \$9 million, or \$148 million in FY 2005. All allowance of flexibility of funds is done on a project-level basis through rescheduling or Available Contract Funds. There is no programmatic carry-over.

**Rescheduling:** Rescheduling is the circumstance where there is a shift in work between years without changing the overall project budget or scope. If work will take longer to perform for reasons beyond the sponsors' control, or can potentially be moved to an earlier time, the funding associated with that work may be rescheduled, as long as the total program budget for FYs 2003-2006 remains within the parameters of an annual average of \$139 million and plus-or-minus 10% of \$139 million for each year.

BPA is developing the protocols for controlling and tracking rescheduling. Considerations will include: the continued relevance of the work, when the work can realistically be performed, etc.

Contracting Officer Technical Representatives (COTR) will be authorized to allow rescheduling, and increase a project budget and/or annual spending cap by up to 10 percent of the annual project budget amount up to a maximum amount of \$20 thousand without notifying Council of the action. Protocols will be developed and presented to Council prior to this being implemented.

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**Available Contract Funds:** Funds not used for a project, or not yet committed to a project, are made available to fund other projects. They can be spent on other projects in the current or future years, as long as the annual program budget remains within plus or minus 10 percent of the \$139 million program average.

**Quarterly Program Status Review Meetings:** A key part of managing the Fish and Wildlife Program budget effectively will be holding Quarterly Program Status Review meetings. These meetings will provide the opportunity for BPA, Council and CBFWA staff to discuss the progress of projects, with BPA's Project Managers/COTRs and contractors attending as necessary. It may be determined that these meetings should be held more often than quarterly. The meetings will be used to:

- discuss projects that appear to be considerably ahead of or behind schedule;
- report rescheduling or changes to project budgets that COTRs have approved within their authorization parameters;
- consider requests for rescheduling outside COTR authorized parameters;
- decide on the appropriate process and level of review for requests for additional funding or changes in scope;
- identify the amount of Available Contract Funds;
- identify and discuss other budget-related issues.

These actions will be identified and reported at Quarterly Program Status Review meetings, and necessary action to maximize performance in the Program will be taken. The expectation is that through this process, projects will be managed such that the combination of Available Contract Funds and Rescheduled Funds applied to the following year will be managed within plus or minus ten percent of the \$139 annual average. In support of this process, BPA will provide project-level reports on a regular basis showing project budgets and accrued expenses to date.