



Department of Energy

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

ENVIRONMENT, FISH AND WILDLIFE

April 17, 2009

In reply refer to: KEW-4

Chairman Bill Booth
Northwest Power and Conservation Council
851 S.W. Sixth Avenue, Suite 1100
Portland, OR 97204-1348

Dear Chairman Booth:

In 2003 and 2004, the Bonneville Power Administration (BPA) issued two pivotal letters which outlined principles for managing the Fish and Wildlife Program's (Program) expense and capital budgets. While these past principles have served the Program well since their release over five years ago, additional principles are especially needed for guiding financial management practices relating to the new commitments reflected in the Columbia Basin Fish Accords (Accords) and the NOAA Fisheries 2008 Federal Columbia River Power System (FCRPS) Biological Opinion (BiOp).

As you may recall, BPA developed a draft updated set of budget management principles and procedures which we initially summarized in an overview at the Northwest Power and Conservation Council's (Council) November 2008 meeting in Coeur d'Alene. We later discussed these principles in more detail with the Council at its March meeting in Boise. In addition, we have also received informal feedback from several Council members. We appreciate the feedback received through these discussions, and as a result, have made several changes and clarifications to the budget principles document. The purpose of this letter is to provide to the Council our completed principles (see Enclosure A), which have been modified and updated in response to your input in Coeur d'Alene and Boise.

In addition, while we are committed to the budget management approach reflected in these principles, the region is embarking on an unprecedented increase in the size and complexity of the Program. As a result, while these principles are intended to guide the Program's future financial management, like the program itself, it will be necessary to adaptively manage the implementation of these principles, and to make changes as appropriate given what we learn over time. Consequently, while BPA intends to proceed forward in managing the Program under these new principles, we will remain open and flexible to further input, as undoubtedly there will be areas where improvements and changes are warranted.

We hope that the Council will work with BPA to proceed on this basis and to collaborate with us in adaptively managing the implementation of these budget management principles as we progress through the coming years.

Sincerely,

A handwritten signature in blue ink that reads "Gregory K. Delwiche".

Gregory K. Delwiche
Vice President, Environment, Fish and Wildlife

Enclosure

**Enclosure A. Fish and Wildlife Program Implementation and Budget Management
Principles and Procedures for 2009-2011
April 17, 2009**

I. Introduction

For nearly 20 years, the Bonneville Power Administration (BPA) has worked to manage its commitments to resident fish, wildlife, and anadromous fish (ESA-listed and non-listed) through its integrated Fish and Wildlife Program (the Program) in a manner consistent with the Council’s Columbia River Basin Fish and Wildlife Program. While BPA continues to believe in the benefits of integrating work at the geographic scale, fulfilling BPA’s commitments to the Council’s Program in general, the Columbia Basin Fish Accords (Accords) and the 2008 Federal Columbia River Power System (FCRPS) Biological Opinion (BiOp), necessitates that Program implementation be managed within three fund types:

- General (non-Accord & non-BiOp) – The broad segment of the Program comprised of projects focused on mitigation and enhancement actions (excludes projects tied to the Accords and the FCRPS BiOp, but includes Libby and Willamette BiOp projects at this time);
- Accord – The segment of the Program comprised of projects identified in the Columbia Basin Fish Accord tables; and
- BiOp (non-Accord) – Additional non-Accord projects and placeholder budgets supporting the 2008 FCRPS BiOp (currently does not include the Libby and Willamette BiOps).

While project implementation processes (e.g., contracting, NEPA, permitting, etc.) are expected to remain the same regardless of the project’s fund type, some aspects of implementation – particularly BPA’s budget management – will differ. Table 1 summarizes the management approaches described in more detail throughout this paper.

Table 1. Summary of Management by Fund Type			
	General Program (Non-Accord & Non-BiOp)	BiOp (Non-Accord)	Accord
BUDGET MANAGEMENT			
Redistribution of budgets between fund types	No. BPA committed to funding the new BiOp and Accord work without decreasing funding for existing work.	No. BPA added dollars to the Program explicitly to support listed anadromous work.	No. BPA added funds to the Program explicitly to support Accord implementation over 10-years.
Source of dollars for budget adjustments	A \$1m within year placeholder (above the reschedule cap) is available to selectively fund requests for within year budget adjustments (over start-of-year (SOY)) for non-BiOp and non-Accord projects.	A \$2m within year placeholder (above the reschedule cap) is available to selectively fund requests for within year budget adjustments (over the SOY) for BiOp projects.	Funds for project specific budget adjustments must come from within each Accord’s total (10-year) budget consistent with the Accord’s budget management provisions.

			No new dollars will be made available.
Reschedule Cap	Up to \$1.0m is available for non-BiOp and non-Accord projects to selectively fund reschedules and projects that did not get underway for reasons beyond the control of the project implementer.	Up to \$2.0m is available for FCRPS BiOp projects to selectively fund reschedules and projects that did not get underway for reasons beyond the control of the project implementer.	Reschedules of Accord dollars are allowed consistent with the Accord's budget management provisions, particularly the entity-level budget cap.
Carryover between rate periods	No programmatic carryover of unspent funds between rate periods.	No programmatic carryover of unspent funds between rate periods.	Carryover between rate periods is allowed within the 120% entity-level budget cap because BPA is managing the Accords on a 10-year basis.
Process for Reschedules, Preschedules and Within-Year Budget Adjustments	Budget Oversight Group (BOG) Process.	BOG Process.	Mutual agreement between Accord signatories. In general, Accord parties submit requests to BPA. Decisions will be provided to BOG.
NEW & EXPANDED WORK			
Identification of New Work	New non-BiOp and non-Accord work may be identified through collaboration or with the Council as solicitations.	In the 2008 FCRPS BiOp, BPA committed to a suite of new actions.	In the Accords, BPA committed to new and expanded projects at particular budgets over the 10-year period.
Funding of New Work	Funding for this work would need to come from savings identified in the General Program fund.	As part of BPA's IPR1 public process, BPA added funding to the Program to cover this new work and allocated that funding to BiOp project and placeholder budgets in its '09 SOY.	As part of BPA's IPR1 public process, BPA added funding to the Program to cover this new work and included the Accord projects and budgets in its '09 SOY.

Further, each component will have a separate planning budget. (See Table 2 for '10.) For the Accord component, budgets will be further broken down by Accord entity.

Table 2. '10 Working Budgets (\$ in millions) (Expense portion of Program)	
Program Components by Fund type	'10 Project-Year Budgets^a
General (Non-Accord & Non-FCRPS BiOp)	\$52m
<i>General within year placeholder</i>	<i>\$1m</i>
Columbia Basin Fish Accords^b (Accord)	\$82m
<i>Fish Accord - Colville</i>	<i>\$16</i>
<i>Fish Accord - Idaho</i>	<i>\$9</i>
<i>Fish Accord - LRT - CRITFC</i>	<i>\$8</i>
<i>Fish Accord - LRT - Umatilla</i>	<i>\$12</i>
<i>Fish Accord - LRT - Warm Springs</i>	<i>\$5</i>
<i>Fish Accord - LRT - Yakama</i>	<i>\$28</i>
<i>Fish Accord - Shoshone Bannock</i>	<i>\$3</i>
FCRPS Bi-Op (non-Accord)	\$98m
<i>BiOp within year placeholder</i>	<i>\$2m</i>
Expense Budgets Total:	\$232m
^a Project-Year budgets are based on project's '09 SOY budget posted July 2008, some of these budgets are already out of date as project budgets change on a regular basis.	
^b Entire project totals are included even if the entire amount is not MOA or Bi-Op	

The above figures in Table 2 are in “Planning Budget” terms. Some adjustments and additions are necessary to translate the above Planning Budget table to anticipated actual spending. Among these adjustments are assumptions that BPA uses to adjust for planning-to-actual differences.¹ In addition, the above break-out does not include BPA overhead, or potential pre-capitalization expense budgets for projects that are “classified” as capital.

For these reasons, the planning budgets in Table 2 are not identical to forecasted Rate Case program levels, which again, are estimates of actual spending.

II. Fund Type 1: General (Non-Accord / Non-BiOp)

Projects in the General (non-BiOp and non-Accord) Fund² continue to be diverse. This fund type includes projects that benefit anadromous fish, resident fish, and wildlife in a broad array of geographic areas. It includes shorter-term projects as well as those that support longer-term commitments (e.g., to maintain BPA acquired lands, or support the Libby, Willamette and other BiOps). BPA expects to continue working with the Council and the region’s fish and wildlife co-managers to manage implementation of this component of the Program in a manner similar to the past several years.

A. BUDGET MANAGEMENT

1. Budgeting – Over the last several years, BPA has found that actual Program spending has averaged about 93 percent of planning budgets for existing projects. For this reason, BPA develops planning budgets that sum to an amount greater than what we expect to actually spend (e.g., amount forecasted in rates development). The General Fund is composed largely of

¹ Based on our experience over the past several years, actual spending tends to be about 93 percent of planning budgets.

² Includes non-BiOp/non-Accord projects, Innovative, and a within year placeholder.

existing projects and the FY10 planning budget for this fund type is approximately \$52 million (see Table 2). BPA expects this planning budget will result in actual spending of approximately \$48 million (93 percent of \$52m).

2. Carryover and Reschedules – In the transition into the FY07-09 rate period, BPA agreed to “carryover” unspent program expense budget dollars from the previous rate period to avoid creating a ‘use it or lose it’ incentive. Moving forward, BPA does not plan to carryover unspent funds to the next rate period for the General Fund. Instead, BPA has set higher planning budgets to account for an expected planning to expenditure discrepancy of ~7 percent. Planning budgets for each FY will be re-evaluated to narrow this discrepancy where possible.

Although BPA does not plan to carryover unspent funds for the General Fund, BPA will continue to support reschedules of planned, on-the-ground work that was delayed for reasons beyond the sponsor’s control. Specifically, BPA will utilize the BOG process to manage the reschedule of up to \$1.0 million³ worth of work into FY10 and FY11 planning budgets. We believe this approach places emphasis on timely planning, review, and implementation of projects to enable the work to be performed, and de-emphasizes spending not directly related to accomplishing planned work.

3. Preschedules – Consistent with past practice, BPA will allow work to be prescheduled through the BOG process.

4. Within Year Adjustments – For projects in the General Fund, BPA will continue to rely on the BOG process to evaluate and track requests to change project budgets and/or scope from those posted at the start of the fiscal year. In ’09-’11, changes will be managed through a \$1 million/yr⁴ placeholder.⁵ As in the past, project implementers may request additional funding as unforeseen costs or actions arise. The BOG will review all requests and determine next steps.

5. 2010 Budgets – Over the last several months, the Council has been working to develop a new categorical/geographical review process for existing projects. Most of these reviews will not be completed prior to contracting beginning early in FY10 (e.g., June 2009 for projects with new or ongoing contracts that require contract action beginning October 1). To ensure work continues taking place during these review processes, BPA proposes to develop SOY budgets in a manner similar to what we have done for FY08 and FY09. With the exception of some projects that are on a trend toward closure or ramping down, BPA would propose to develop a draft SOY budget based on a project’s ’09 budgets plus a 2.5 percent inflation adjustment where appropriate. We will continue to coordinate with Council and staff on developing a SOY budget for 2010 that can serve to guide contract development for FY10, some of which begins during summer 2009.

³ The \$1m figure reflects a best estimate based on past reschedule requests.

⁴ Over the last several years a \$2m placeholder has been adequate for the entire \$143m Program, thus we estimate that \$1m should be sufficient for a ~ \$50m in projects.

⁵ This placeholder is being managed through the General – Within Year Fund.

B. PROJECT SELECTION AND FUNDING

1. Existing Projects – The projects currently contained in the General Program Funds were identified largely through the '07-'09 Solicitation Process and Innovative Project Solicitation. These processes included science review and resulted in BPA making project specific funding decisions consistent with the Council Program and BPA program levels.

2. New Projects – Through the Accords and BiOp, BPA has significantly increased its Fish and Wildlife Program budget to mitigate the impacts of the FCRPS on anadromous fish, resident fish, and wildlife. While BPA has committed the additional funding to Accord entities and to BiOp projects (through the Accord and BiOp (non-Accord) fund types), flexibility also remains for undertaking new work within the General Fund. The flexibility for initiating new work is expected to come from two sources: (1) the completion of existing projects funded out of the General Fund, and (2) more efficient implementation of longer-term type projects.⁶ Once this funding is freed up through project closures or budget adjustments, targeted and competitive solicitations to select project sponsors for new work (non-BiOp and non-Accord) could be a logical next step.

III. Fund Type 2: the Columbia River Basin Fish Accords

As of April 8, 2009, BPA had made budgetary commitments to a suite of projects with eight⁷ entities to be implemented over 10 years. These budgets represent continued support for the work implemented through existing projects,⁸ and additional funding for expanded and new projects.⁹ BPA has decided to manage these projects and their associated budgets in separate Accord funds to ensure that spending on new Accord work does not come at the expense of work in the General Fund. In order to implement the budget management provisions contained in the Accords, and accomplish Accord deliverables over a 10-year horizon, BPA and the Accord parties have agreed to a budget management approach¹⁰ that adds broader work-scheduling flexibility at the project level but also provides for tighter management at the entity level.

A. ACCORD BUDGET MANAGEMENT

1. Accord Budgeting – Over the last several years, BPA has found that actual Program spending has averaged about 93 percent of planning budgets for existing projects. However, a substantial portion of the work in the Accords is new. The Accords acknowledged that these new projects

⁶ Specifically, BPA anticipates that categorical review of RM&E, data management, and coordination will result in focus that addresses specific priorities related to FCRPS mitigation which will result in both improved effectiveness as well as opportunity to shift funds from this category of work to new, on-the-ground work providing direct benefit to fish and wildlife.

⁷ Note: This number does not include possible additional accords being negotiated as of 4/10/2009, nor does it include the proposed Estuary Habitat MOA with Washington, which is out for public comment.

⁸ Existing projects are those that were included (with budgets) in the Program as part of BPA's '07-'09 Project Funding Decision.

⁹ Expanded work (or projects) is additive the actions already being undertaken by existing projects. In particular, the new work falls within the scope of the project as reviewed by the ISRP. New work is beyond the scope of work that was reviewed in past solicitation processes.

¹⁰ Letter dated 4/14/09 from Greg Delwiche to Accord parties.

would take time to ramp-up and thus would likely spend less than 93 percent of their budgets in '08 and '09. BPA developed planning budgets consistent with the Accord assumption that 33 percent and 75 percent of new dollars would be spent in '08 and '09. The ramp-up was assumed to be completed by 2010, thus the assumption was that about 93 percent of project budgets would be expended. In 2010, BPA set planning budgets for the Accord funds at \$82 million. This planning budget should result in actual spending of approximately \$76 million (93 percent of \$82m).

2. Carry Over and Reschedules – Since the Accords were signed several months after the ramp-up assumptions were written, slower than expected ramp-up of new Accord work could result in under-spending as compared to forecasts made for developing rates. Since the Accords are a combination of commitments to BiOp performance and other Council Program performance over a 10-year period, BPA will allow rescheduling of unspent dollars throughout the '09-'17 period, but with the caveat that annual spending would not exceed 120 percent of the original entity-specific budget for each planning year.¹¹

3. Re-distribution of Accord Funds – Since the Accords allow unspent entity-specific funds to be rescheduled into subsequent fiscal years (consistent with the entity's budget cap), these funds will not be made available to other Program components. Likewise, Accord projects will not receive dollars transferred from non-Accord funds. However, BPA could allow for some funds to be transferred between Accord projects so long as these transfers result in neutral or greater on-the-ground benefits and/or neutral or greater benefits to listed anadromous fish and are consistent with the entity level budget caps.

4. Accord Project Budget Adjustment Processes – Since the Accords specified a total 10-year budget commitment by entity, a project increase must be offset by a project decrease. Project budget increases could come from other Accord projects with the same entity or from the same project in a different year consistent with entity budget caps and other budget implementation guidelines. Given the focus on entity-level budgeting, BPA will manage project budget change requests directly with the Accord entities. Specifically, the state/tribe will submit a request to BPA that describes the nature of the budget adjustment. BPA will evaluate the request, engage in any necessary negotiations, and implement the decision. For transparency purposes, BPA will share the requests and decision rationales with the Council and the region via regular updates to BOG.

B. PROJECT SELECTION AND FUNDING

1. Existing Work (including within scope expansions) – Much of the work included in the Accord Funds was identified first as part of the '07-'09 Solicitation Process with the Council. This process included science review and resulted in BPA making project specific funding decisions consistent with the Council Program and BPA program levels. Through the Accords, BPA committed to these projects and budgets for 10 years. BPA also committed to additional funding for some of these projects to undertake more of the work identified in their '07-'09

¹¹ Note: This will not result in a total increase over the 10-year period because an increase in one year will be offset by a decrease in other years.

proposal. BPA has included this additional funding in its forecasted Program level for rates development via its Integrated Program Review (IPR) public processes.

2. New Work (including significant scope expansions) – The Accords also contain additional funding for existing and new projects that are outside the scope of past proposals. For this sub-set of work, the Accord parties and BPA have worked with the ISRP and Council staff to establish a science review process for this work.

IV. Fund Type 3: the FCRPS BiOp (Non-Accord)

BPA will also manage a distinct segment of the Program's overall budget to ensure implementation of FCRPS BiOp commitments outside of the Fish Accords. Unlike in the Accords, BPA's non-Accord BiOp commitments are currently linked to specific reasonable and prudent alternatives (RPAs) and not to specific budget amounts or to specific contractors. In FY09, BPA has determined that many of the RPAs are best achieved through projects proposed as part of the FY07-09 solicitation. However, BPA's FY09 SOY budget also reflects additional funding to support the BiOp by augmenting some existing projects and adding new work not included in BPA's FY07-09 funding decision. In 2010 and beyond, BPA will continue to rely on known sponsors for much of this work, but may also choose to develop targeted solicitations, in coordination or partnership with the Council, to solicit for alternative implementation mechanisms and/or to choose sponsors for new projects.

A. BIOP (NON-ACCORD) BUDGET MANAGEMENT

1. BiOp (Non-Accord) Budgeting – In deciding to implement its portion of the 2008 FCRPS BiOp, BPA committed to a suite of existing and new work. As with the Accords, BPA assumed that the new work would take some time to ramp up in '08 and '09, and that spending on all projects beginning in '10 would be about 93 percent of planning budgets. In 2010, BPA set planning budgets for the BiOp (non-Accord) fund at \$98 million. This planning budget should result in actual spending of approximately \$91 million (93 percent of \$98m).

2. Carryover and Reschedules – BPA's commitment under the FCRPS BiOp is to specific work rather than to a specific amount of money. Therefore, BPA will not explicitly carry over unspent BiOp funds. If a project can be implemented at a lower than forecasted amount, those dollars would be used to cover the higher-than-forecasted needs of other BiOp projects or else returned to ratepayers by being kept in BPA's cash reserves.

To allow for the completion of planned, on-the-ground work that was delayed for reasons beyond the sponsor's control, BPA has established a \$2.0 million¹² placeholder for BiOp work to be rescheduled into the FY10 and FY11 planning budgets. This process will continue to be managed through BOG.

3. Preschedules – Consistent with past practice, BPA will allow work to be prescheduled through the BOG process.

¹² The \$2m figure reflects a best estimate based on past reschedule requests.

4. *Within year adjustments* – For projects in the BiOp (non-Accord) Fund, BPA will continue to use the BOG forum to track and discuss requests to change project budgets and/or scope from those posted at the start of the fiscal year. As in the past, project sponsors will submit requests through existing forms and discuss their request with BPA and the Council in the BOG forum. Following the BOG discussion, BPA management will make its decision and document the Agency’s rationale in a letter to the Council. Funding for budget adjustments will come from a BiOp within-year placeholder of \$2 million per year.

B. PROJECT SELECTION AND FUNDING

1. *Existing and Expanded Projects* – Much of the work included in the BiOp (non-Accord) Funds were identified first as part of the ’07-’09 Solicitation Process with the Council. This process included science review and resulted in BPA making project specific funding decisions consistent with the Council Program and BPA program levels. In implementing the BiOp, BPA also committed to work that was within the scope of existing project proposals but could not be undertaken within the budgets established for ’07-’09. BPA added funding to the Program to undertake these project expansions and allocated that funding to project budgets in BPA’s FY09 SOY. Contracting is proceeding for this work.

2. *New Work* – The BiOp also included a commitment to additional work that is outside the scope of existing projects reviewed by the ISRP. BPA estimated the cost of this work and added funding to the Program to facilitate implementation. BPA allocated some of this additional funding to existing projects that could be expanded to implement the BiOp priorities. In addition, the FY09 SOY budget was also increased by approximately \$21 million¹³ to support RPAs that may not be implemented through existing projects or project proposals. BPA will work with the Council, and in coordination with the region’s fish and wildlife co-managers, to identify the most efficient and effective ways to select sponsors for implementing these RPAs. Where BPA has not selected a contractor, one approach could be a joint Council-BPA targeted solicitation.

¹³ This is a very rough estimate based on ’09 SOY budgets for 2008-7xx-xxx series projects and un-numbered BiOp placeholders. This is a sub-set of new non-Accord BiOp work – ’09 SOY budgets include about \$28m for new non-Accord BiOp work. This translates into an expected revenue need for rates of about \$21m for the same work due to ramp-up expectations.