



Department of Energy

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

ENVIRONMENT, FISH AND WILDLIFE

August 3, 2012

In reply refer to: KEW-4

Dear <Project Sponsor>:

BPA and its partners have been implementing the Columbia Basin Fish and Wildlife Program for 30 years now, and the program is reaching maturity. Today's budgets are fully allocated, and Program implementation is now fully ramped up. You and our other partners have been accomplishing impressive results, successfully bringing back fish and wildlife across the Basin.

Because you are a major Program partner, I would like to request your patience and your help in managing through some tight spending projections for fiscal years 2012 and 2013, while we maintain and continue our past successes. BPA's Fish and Wildlife Program expense funding levels have increased from less than \$150 million in 2008 to \$246 million this fiscal year. Proposed budgets for 2014 and 2015 are \$254 million and \$260 million, respectively. Capital budgets provide an additional increment of spending for fish and wildlife, ranging from \$55 to \$90 million annually through 2015. These budgets are set with close scrutiny from the region because they ultimately come from the region's electric ratepayers.

Unfortunately, we are also experiencing some growing pains. Because BPA lacks control over the shape and timing of fish and wildlife contract spending, implementation of a fully ramped up program poses challenges. While *multi-year* Program funding levels remain adequate, the shape and timing of spending makes it difficult to manage within the context of an *annual* budget. Last year, for example, it was a challenge for us to manage capital spending to remain within our fiscal year budget, and we had to postpone some capital projects. However, we finished the year within budget for expense spending. This year the opposite is true. The pace of expense spending is well above our previous experience and projections. We see the same prospect for next year.

To help manage through this situation, BPA recently increased the Program expense budget by \$13 million in 2012 and 2013. However, through June, the end of the third quarter of FY 2012, fish and wildlife expenditures were approximately \$184 million in expense, yielding end of year projections well above the increased \$246 million budget. A number of reasons have contributed to this situation:

- **Planning vs. actual budgets:** BPA has generally let contracts at a higher value than funds available. This higher level of contracting has allowed BPA and our partners to fully use the available funds and plan for uncertainty surrounding much of the work (e.g., design, permitting, weather, landowner willingness, etc.) In the past, around 7 – 10% of planned expenditures did not materialize. Today, however, we are seeing contracts spending at much closer to their budgeted levels than has been our experience in the past.

- **Cross fiscal year contracts:** In order to manage the implementation of more than 500 contracts across hundreds of contractors – including states, tribes, non-profit organizations, and Federal agencies – BPA has staggered contracts across the year and provided flexible contracting provisions (i.e., extensions, reschedules, and two-year contracts). This flexibility, while easier to administer, has created challenges in the timing of our spending. Nearly 50% of projected fiscal year 2013 spending is associated with ongoing contracts that are already in place.
- **Variable timing of spending:** Capacity, weather and other circumstances can influence when work occurs. For example, in 2011, the wet summer combined with high flows in the tributaries postponed work into fiscal year 2012.

To summarize, assumptions we have been using for budget management based on historic patterns of spending appear to no longer be valid. BPA and the region need to begin a transition to new budget and project management practices that provide greater reliability and stability. We must figure out ways to better manage our spending within budget.

Some steps we are already undertaking should help. Anticipating the Program ramp up, BPA has been actively implementing recommendations from the Northwest Power and Conservation Council and the Independent Scientific Review Panel. In particular, we are honing our focus on projects that specifically address BPA's responsibilities to mitigate for the impacts of the federal hydrosystem, on projects that yield clear and useful biological information for mitigation, and on finding programmatic efficiencies. Our goal has been to identify practical, efficient savings that will allow higher priority Program actions to proceed, while managing our spending within budget. This effort continues and is expected to provide savings of several million dollars for 2013. But these savings will not be enough.

We are asking for your voluntary assistance to reduce spending on a temporary two year basis -- for existing 2012 contracts and for future 2013 contracts. We are asking you to reduce spending across fiscal years 2012 and 2013 by 10-15%. Starting in 2014, we would expect to restore the two-year funding reductions, except for reductions that were more permanent efficiency or priority shifts (e.g., from rescoping research, monitoring, and evaluation).

We are making similar requests to our Program partners across the Basin to help resolve the 2012-2013 budget situation. In addition, we are working with Columbia Basin Fish Accord partners to shape spending under their agreements. BPA Fish and Wildlife has reduced our internal overhead by limiting travel and training, limited support by external contractors, and delayed hiring of staff following attrition. In the long run, we plan to analyze and revise our budget planning and management tools to try to avoid a repeat of this budget crunch.

We know this is not an easy request, and wish we did not have to make it. Bill Maslen or Bryan Mercier of my staff will be in touch with you or your staff to schedule a meeting to answer any outstanding questions you may have and to develop a mutually agreeable approach for both of the next two years. We are committed to working with you through this difficult transition to

ensure that decisions are well informed and the available budget continues to be applied to the priorities that provide best value to fish and wildlife resources. Enclosed is a portfolio of your FY 2012 contracts and balances in chronological order to assist this discussion.

The work that we do with you to benefit fish and wildlife is important, as is our relationship with you as a stakeholder and project sponsor. We look forward to working together as partners to resolve this challenge, so we can continue to focus on implementing one of the largest and most successful environmental mitigation programs in the world.

Sincerely,



F. Lorraine Bodi
Vice President, Environment, Fish and Wildlife

Enclosure