



## Department of Energy

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

EXECUTIVE OFFICE

December 10, 2002

In reply refer to: A-7

Mr. Frank L. Cassidy, Jr. Chairman  
Northwest Power Planning Council  
851 SW Sixth Avenue, Suite 1100  
Portland, OR 97204

Dear Mr. Cassidy:

Earlier this year I met with the Northwest Power Planning Council (Council) and said Bonneville Power Administration (Bonneville) is confronted with its most severe financial challenge in at least 20 years. While we have taken many actions in the interim period, our financial situation continues to deteriorate. This letter is to ask for your specific help with respect to fish and wildlife expenditures.

At the outset I want to assure you that, although the immediate issue that makes this letter necessary is a financial one, Bonneville remains firmly committed to meeting its statutory and treaty obligations, including fish and wildlife responsibilities. It is my belief that, with the advice and close collaborative support of the Council, Bonneville will be successful in continuing to fulfill its obligations to the region's fish and wildlife.

In the last two years, Bonneville's total financial reserves have declined by over \$800 million, leaving the agency in an extremely fragile position financially. In a November 22, 2002, letter to the region, I explained that Bonneville is facing a financial gap between revenues and expenses of \$1.2 billion for the 2002-2006 rate period. The letter outlines how we have reduced our financial commitments through September 30, 2006, by about \$350 million that we are prepared to declare as certain. These reductions have been deep and painful, but despite that fact, Bonneville believes it has managed to keep the essential programs intact that we are obligated to provide. We are also pursuing additional expense reductions and funding deferrals that potentially could contribute an additional \$500 million toward closing the financial gap. Among these are potential reductions for fish and wildlife programs. At this point we are including practically no savings from fish and wildlife mitigation efforts in the \$350 million of measures we believe are certain.

In addition, we are no longer assuming any rate decreases through the period. Even with these actions there was only a 50/50 probability of not having to raise rates further within the period. With the poor start to the water year we are currently experiencing, the odds of pursuing a rate increase, even if we are successful at finding the additional \$500 million are increasing substantially. This is an option we have fought hard to avoid, given the state of the regional economy and hardship as a result of rate increases already put in place.

I appreciate the difficult task the Council and fish and wildlife managers have recently completed with the rolling provincial reviews; amending the program and setting three-year budgets to fall within financial targets I outlined a year ago. Seeing the strong leadership and dedicated work ethic exhibited in that trying process has led me to believe that the Council and the fish and wildlife managers are capable of once again leading the region in recommending project budgets and prioritizations that continue to help meet Bonneville's obligations in an increasingly difficult financial climate.

In a December 2001 letter to you, I stated our intention to provide funding for the Integrated Program (Endangered Species Act offsite mitigation and the Council's Fish and Wildlife Program) at an annual average of \$139 million in accrual expense for the 2002-2006 rate period. This reflected an increase of 39 percent in the level of estimated expense funding over the 1996-2001 rate period. Historically, spending for the Integrated Program, on an accrual basis, has been below projected levels. But, already in the first year of the new rate period, Bonneville's expense accruals were \$137 million. This rapid increase in program spending has surprised us. Bonneville, in cooperation with Council and Columbia Basin Fish and Wildlife Authority staff, has completed a draft FY 2003 accrual budget estimate that will be released for public comment. The analysis indicates that by the time the cost of new and expanded projects for 2003 are added to the current expense accrual level, there is a substantial risk that fish and wildlife spending for FY 2003 will far exceed the average expense accrual number of \$139 million that Bonneville committed to fund. This type of increase would reduce the benefits achieved through cost reductions in other areas of Bonneville and aggravate any rate increase.

While Bonneville has worked hard to bring its internal costs that must be recovered in power rates back to 2001 levels, we are not proposing a similar roll-back in funding for the Integrated Program. However, we believe that we must hold the line on fish and wildlife spending for FY 2003 at \$139 million in expense. I am asking that the Council in consultation with the region's fish and wildlife managers take the lead to achieve at least the following three goals. We are prepared to work with you in this effort to help better define what it will take to meet these goals:

1. Take appropriate steps to ensure that spending for the Integrated Program does not exceed \$139 million in expense accruals in FY 2003.
2. Prioritize program spending to create the opportunity to spend less than \$139 million in expense annually through the 2003-2006 period.
3. In accomplishing 1 and 2, prioritize program spending to assure Bonneville meets its obligations to fish and wildlife. We are asking the Council to establish criteria for setting priorities. We believe that core among these are projects needed to meet the requirements of the various biological opinions that apply to Bonneville, in particular the 2003 and 2005 check-ins for the 2000 Federal Columbia River Power System Biological Opinion and to preserve previous important investments of the Fish and Wildlife Program.

It is critical to recognize that, in containing costs, deferring spending to future years would not be a solution since, as mentioned above, Bonneville is facing a serious financial shortfall for the rest of this rate period.

In particular, we ask the Council's help in prioritizing program spending in a way that will continue the pace of the recovery effort that, based on increased runs and promising jack counts, appears to be under way. We are not recommending deferring or canceling projects that are essential to implementation of the Biological Opinion and to continued progress toward recovery.

Time is of the essence. We are already making decisions in other of Bonneville's program areas, and we need to know soon what contribution we can expect from the Integrated Program. We must continue to move quickly to address this issue. I ask that you provide us your recommendation by February 21, 2003, when we will be nearly half way through this fiscal year.

In the interim, Bonneville has begun to take actions to immediately contain the potential for FY 2003 fish and wildlife costs to exceed the planned budget. Enclosed is a copy of a letter posted on our external web site on November 20, 2002, informing contract sponsors of revised contract renewal guidelines that are effective this fiscal year. Last week I directed fish and wildlife staff to begin exploring policies and to begin modifying our contracting processes to assure that our near-term actions do not compromise the three goals I outlined above. The interim actions we are taking so far include:

- Placing all land or easement purchases on hold. Bonneville will make every effort to work with project sponsors to find ways to preserve the option of completing the purchase at a future time.
- For a limited duration, funding contracts due for renewal at a reduced level sufficient to preserve the existing investment and keep essential systems operating at the minimum level necessary to retain the benefits achieved to date for fish and wildlife.

We are concerned that this may not be enough and that other actions may be required.

We realize there has been little opportunity to discuss these actions to suspend incurring additional costs either with the Council or other interested parties. We want to work with the Council and others on interim actions that would help to appropriately contain FY 2003 fish and wildlife expenses. We are also open to working with the Council and others to quickly develop an expeditious process to review specific instances in which essential new information could affect specific applications of these interim measures. I would caveat that any such process must be completed expeditiously, and that we cannot afford to delay the implementation of interim actions, as to do otherwise could foreclose our future options.

I realize that these interim actions can create extreme disruption and hardship for project sponsors. I wish that it were not necessary. But the prospect of a potential budget overrun at a time when our financial circumstances are so dire requires dramatic action.

I would also note that we have worked together in the past on our financial reporting systems, but substantial work remains to be done to assure that we get a much earlier understanding of the budget path we are on than occurred this year. We want to work with you to assure that in the future we are not confronted with this kind of problem in the middle of a fiscal year.

We are seeking efficiencies and cost reductions in every segment of costs that Bonneville incurs. Fish and wildlife spending must be a part of that review. We also know that Bonneville has obligations to fish and wildlife that must be met. Our goal throughout the Financial Choices process has been to find the means to achieve these obligations in a more cost-effective and efficient manner. We hope that you can join with us in this effort.

Because Bonneville and the Council share a common goal of protecting and enhancing the Northwest's fish and wildlife while also maintaining an economic and reliable power supply for the region, I am confident that, working closely together, we can contain fish and wildlife costs while assuring that Bonneville meets its statutory obligations. This is a task we must accomplish. My staff and I look forward to working collaboratively with the Council and its staff and the region's fish and wildlife managers to achieve the best possible outcome for the people – and the fish and wildlife – of the Northwest.

Sincerely,

/s/

Stephen J. Wright  
Administrator and Chief Executive Officer

Enclosure



## Department of Energy

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

ENVIRONMENT, FISH AND WILDLIFE

November 20, 2002

In reply refer to: KEWS

Dear Fish and Wildlife Contractor,

As you may know, Bonneville Power Administration (BPA) policy is to make every effort to ensure that fish and wildlife projects funded by ratepayers achieve the maximum biological benefits at the least cost. This policy has been stated publicly on many occasions and in many forums. BPA is now facing one of the most challenging financial crises in its history. This fact has added new urgency to implementing improved efficiencies in its fish and wildlife contracting procedures as well as other programs agency-wide.

In working with your BPA project manager on contract renewals please be aware that this guidance has been given to them as standards for contract renewal. Specifically, fish and wildlife contractors will use the following standards when preparing budgets for Fiscal Year (FY) 03 contract renewal:

- § Eliminate 10% rule that enables "budget creep" above approved project budget.
- § Eliminate all "carry over" (contracted project balance). Set FY 03 budget consistent with BPA decision document/Northwest Power Planning Council (Council) recommendations, which are similar in most instances.
- § Eliminate the 3.4% Cost of Living Adjustment (COLA) Rule. For the interim until we have an agreed upon start of year FY 03 Budget, use the BPA FY 02 contracted amount for FY 02 rather than assuming any amount for a COLA.
- § Be sure to include a section in the Statement Of Work (SOW) that explains/details the travel and potential training costs in the budget. These must be directly connected to the project proposal as submitted in the Provincial Review Process and as recommended by the Council.
- § Travel must be associated with implementation of the project and clearly explained in the SOW and detailed in the budget.
- § Training must be essential for implementation of the project and specifically identified in the project proposal. There must be a clear tie between the training and the work described in the objectives and tasks.
- § Conferences will not be paid for under BPA contracts. All conference attendance and associated travel is to be covered by the contractor.

- § Scrutinize housing and equipment purchases to achieve scope of the project.
- § Extend the life cycle of equipment such as computers, printers, vehicles, boats, etc. In other words, postpone replacement of this equipment as long as possible without jeopardizing safety and/or project scope integrity.

If you are unsure of any of this guidance as you prepare a new SOW and budget for FY 03, please talk with your BPA contract manager/Contracting Officer's Technical Representative (COTR) for clarity. For detailed information about BPA COTR roles and responsibilities, please refer to the Bonneville Purchasing Instructions available online at <http://www.bpa.gov/Corporate/Kgp/bpi/bpi.htm>). Please keep in mind that BPA Contracting Officers have the final authority for contract renewal commitments and acceptance.

We will soon provide additional reporting guidelines to you for projects that are anticipated to meet Biological Opinion requirements. This information is critical for BPA to verify the performance of offsite mitigation measures during our 3, 5, and 8-year check-ins with the National Marine Fisheries Service and US Fish and Wildlife Service.

Sincerely,

/s/

Sarah McNary, Manager  
Fish and Wildlife Division