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Northwest **Power** and Conservation Council

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July 5, 2018

DECISION MEMORANDUM

TO: Council members

FROM: Sharon Ossmann

SUBJECT: Decision to adopt Fiscal Year 2020 and Fiscal Year 2019 Revised budget

PROPOSED ACTION:

Staff recommends the Council approve adoption of its draft Fiscal Year 2020 and Fiscal Year 2019 Revised budget. Staff also recommends that the Council authorize reprogramming of available Fiscal Year 2018 funds for unanticipated Fiscal Year 2018 costs.

SIGNIFICANCE:

The funding necessary for the Council to carry out its activities and responsibilities under the Northwest Power Act is provided by the Bonneville Power Administration based on the Council's adopted budget. Following public comment, the Council adopts its budget in July or August of each fiscal year and forwards the adopted budget to Bonneville for inclusion in its budget transmittal to Congress.

BUDGETARY/ECONOMIC IMPACTS:

The proposed Fiscal Year 2019 Revised budget is \$11,708,000 and the proposed Fiscal Year 2020 budget is \$11,725,000. These budgets are both below the calculation of the budget cap, based on the forecast of firm power sales as specified in the Northwest Power Act. The Council identified cost savings to reduce the proposed budget by \$206,000 in the FY 2019 and \$428,000 for FY 2020.

BACKGROUND:

The Council released the draft budget document for a 42-day public comment period, and allowed time for public comment on the document at the June Council meeting in Portland. We received two written comments

on our budget, One from PPC and the other from NRU. The comments were forwarded to Council members and copies are attached to this memo.

NRU commented that the Council should carefully consider its statutory authority and the Power Act's funding limits when developing and prioritizing its workplan and corresponding budget. Staff do not agree with NRU's understanding of the budget provision in the Act, nor its understanding of how and why the Council has implemented that provision throughout the history of the Council, for reasons that can be detailed if necessary. Even so, we do appreciate the reminder to be careful how we match our budget, staffing and workplans to our statutory authority. We are confident that these do match, and that the agency budgets we recommend here and have established in the past are what is necessary to permit the Council to carry out its functions and responsibilities under the Act.

The Council was responsive to Bonneville's financial concerns and in addition to the budget reductions reflected in our Fiscal Year 2019 Revised budget, the Council identified over \$1,100,000 in additional cost cutting measures for our Fiscal Year 2020 through Fiscal Year 2023 projections. The Council is committed to fiscal restraint while budgeting adequate funds to carry out our statutory duties as described in the Northwest Power Act.

The Council's Fiscal Year 2019 revised budget of \$11,708,000 is a reduction of \$206,000 from the Fiscal Year 2019 budget adopted last year. The \$206,000 reduction from the FY 2019 budget adopted last year is attributed to savings in personal services, travel and operating costs.

The proposed FY 2020 budget of \$11,725,000 represents a slight increase of \$17,000 over the Fiscal Year 2019 revised budget.

ALTERNATIVES:

1. Adopt the Fiscal Year 2019 Revised and Fiscal Year 2020 Budget. This is the recommended alternative.
2. Delay a decision on the budget for one month to allow members to consider alternative budget levels. This alternative is not recommended. The Council will have an opportunity to revise the Fiscal Year 2020 budget when the next budget cycle begins in February 2019. At that time the Council could consider additional budget reductions, if necessary, in response to Bonneville's current financial condition.

June 29, 2018

Re: Comments on the Council's Proposed FY 2020 Budget

Northwest Requirements Utilities (NRU) represents the interests of 53 consumer-owned utilities in the Pacific Northwest. All NRU members hold Load Following and NT contracts with the Bonneville Power Administration (BPA) and rely on BPA to serve most, if not all, of their power supply needs. As such, affordable and reliable power supply is the primary objective of NRU members. NRU and its members are heavily involved in all BPA processes and rate cases to advocate for cost efficiencies and reliable service.

BPA's power rates have increased over 30% since the start of the Regional Dialogue contracts in 2012. Earlier this year, BPA released its Strategic Plan to guide the agency to bend the cost curve and position itself to be cost competitive and the power supplier of choice post-2028. BPA has proposed to absorb all inflationary increases into the upcoming rate period and is working to identify additional areas of cost reductions and efficiencies. One key piece to success is the agency narrowing its focus to provide only its core services – reliable and affordable power and transmission service to its customers.

It is important to remember that BPA fully funds the Northwest Power and Conservation Council's (Council) budget, and that BPA is fully funded by the public power ratepayers of the Pacific Northwest. Thus, every dollar spent by the Council comes from the pockets of Northwest public power ratepayers. Just as BPA is evaluating every piece of its budgets and workload, the Council too must carefully evaluate all components of its budget and ensure its scope of work is consistent with the directives of the Northwest Power Act (NWPA).

Council's Workload and Scope Must Abide by the Northwest Power Act

The NWPA establishes the Council as a regional agency charged with preparing and adopting (A) a regional conservation and electric power plan, reviewed at least once

every five years,¹ and (B) a program to protect, mitigate, and enhance fish and wildlife.² Each action undertaken by the Council and funded by BPA's customers must be evaluated to ensure consistency with the directives of the NWPA. Actions superfluous to the requirements of the NWPA should not be undertaken.

Statutory Directive of Payment Limit Should Guide Workload and Scope

Further guidance on the Council's scope of work is indicated within the NWPA's language on funding the Council. The NWPA prescribes an annual funding limit of 0.02 mills multiplied by the kilowatt-hours of firm power forecast to be sold by the Administrator during the year to be funded.³ The NWPA provides the Administrator with the discretion to increase the annual funding limit to 0.10 mills upon request.⁴ This structure indicates the assumption that the Council's normal workload would fit within the base limit of 0.02 mills, while acknowledging that there may be times, on a periodic basis, that the Council would need a larger budget, perhaps when updating the Power Plan or fish program.

The Council's proposed budget is equivalent to 0.095 mills, nearly at the uppermost limit. NRU encourages the Council to carefully consider its statutory authority and the NWPA's funding limits when developing and prioritizing its workplan and corresponding budget.

The current financial stress and serious competitive challenges experienced by BPA provides an ideal opportunity for the Council to prioritize its work efforts and eliminate items that do not fit within its statutory directives. NRU recognizes this is not an easy task. However, this is the same ask we make of all parts of BPA's budget, ranging from BPA's internal costs to Energy Northwest and the Corps and the Bureau. Prioritizing work and eliminating non-core business activities are actions that NRU member utilities have undertaken for years as they have absorbed the tremendous rate increases from BPA, and now BPA and its partners are undertaking similar efforts. We ask that the Council join BPA in its initiative to be cost competitive by prioritizing work around core business functions; in the Council's case, that would be the Power Plan and fish and wildlife program.

Thank you for the opportunity to comment.

¹ Pacific Northwest Electronic Power Planning and Conservation Act, 16 U.S.C § 839b(d)(1).

² *Id.*, U.S.C. § 839b(a)(1).

³ *Id.*, 16 U.S.C. § 839b(c)(10)(A).

⁴ *Id.*, 16 U.S.C. § 839b(c)(10)(B).

June 29, 2018

RE: PPC Comments on the Northwest Power and Conservation Council's (NWPCC's) Proposed FY 2020 Budget

As BPA preference customers, the Public Power Council's (PPC) members fund the NWPCC's annual operating budget. Given BPA's effort to reduce its costs for its long-term financial health, we appreciate the NWPCC's own efforts to reduce its budget. This year's proposed budget appears to have slowed the NWPCC's upward trajectory. Even so, considering BPA's financial situation as well as the broader economic challenges in the region, we hope the NWPCC will continue to further its savings efforts between now and FY 2020.

Although the NWPCC will be working on its Fish and Wildlife Program amendment process as well as its mid-point review of the Seventh Power Plan, and commencement of the Eighth Power Plan in the near future, adding staff or resources to complete these efforts does not appear necessary. The skilled, existing NWPCC staff does exceptional work completing these duties. If resources appear short for completing them, other non-critical work efforts should be reduced and resources reprioritized.

Additionally, the NWPCC should look for ways to reduce costs by working with BPA, the region's utilities, and tribal and state fish and wildlife managers who are gathering similar data and undertaking related analysis. Further, it is not expected that the same costly modeling improvements as those that increased budgets prior to the Seventh Power Plan will be necessary in the next several years.

PPC and its members value working with the NWPCC and appreciate the ability to comment on the budget. We will further look at BPA's costs, including the NWPCC's budget, as part of the ongoing Integrated Program Review, and are optimistic that the NWPCC will continue working with BPA to bend the cost curve downward by prioritizing work and focusing resources on the most critical efforts.