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## Northwest Power and Conservation Council

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July 7, 2015

### DECISION MEMORANDUM

**TO:** Council members

**FROM:** Tony Grover, Kerry Berg, and Lynn Palensky

**SUBJECT:** Fish and Wildlife Committee recommendation for a Council decision to support the use of the cost savings methodology developed with the Cost Savings Workgroup

**PROPOSED ACTION:** Committee recommends that: 1) Council decide to support the attached methodology to find cost savings in the program for funding emerging priorities; 2) Bonneville make savings available for emerging priorities with a target of approximately 1% of the program planning budget for SOY 2017, and identify program savings to make available for FY 2016; 3) Work with Bonneville to develop a solicitation process for funding emerging priorities.

**SIGNIFICANCE:** The request would result in an opportunity to fund new or expanded work in the priority areas of the fish and wildlife program without increasing the annual program budget<sup>1</sup>.

### BUDGETARY/ECONOMIC IMPACTS

This request would not require an increase in program funds.

### BACKGROUND

[http://www.nwcouncil.org/fw/program/2014-12/program/partsix\\_implementation/ii\\_investment\\_strategy/](http://www.nwcouncil.org/fw/program/2014-12/program/partsix_implementation/ii_investment_strategy/)

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<sup>1</sup> Annual planning budget for 2015: \$309 million (expense) – (cbfish.org).

### ***Bonneville funding for emerging program priorities***

*Bonneville should fund any new fish and wildlife obligations from identifying savings within the current program and as necessary, from additional expenditures. Savings from the current program should not compromise productive projects that are addressing needs identified in this program. For example, additional funding can be obtained when projects complete their goals, such as a research project, or when a project is no longer reporting useful results. Funding should also be sought in general overhead budgets including Bonneville's overhead for its Fish and Wildlife Division. To the extent that targeted savings are insufficient to meet Bonneville's financial obligations in this program, Bonneville should consider increasing expenditures. Prior to every rate case Bonneville should report to the Council how it plans to budget for implementation of the fish and wildlife program.*

### **ANALYSIS**

The Council is committed to work in partnership with Bonneville to find cost savings that will “assure funding for identified program priorities to maximize the biological response resulting from ratepayer and cost-shared investments.” *2014 Fish and Wildlife Program Investment Strategy at page 114.*

The Council released the draft methodology for public comment after the June Council meeting. We received seven sets of comments from fish and wildlife managers, tribal representatives and customers groups. A summary of the comments is attached (Attachment 1). See full comments at <http://www.nwcouncil.org/fw/cost-savings-group/>.

Based on the comments received, staff made some minor changes in the cost savings methodology (Attachment 2). Staff recommends the Committee and the Council support the use of the attached ‘Methodology to Identify and Review Projects for Cost Savings’ and the request to Bonneville to create a placeholder for funding to implement projects in the emerging priorities areas. The placeholder would not increase the currently-approved program budget.

### **NEXT STEPS**

- Cost Savings Work Group to work with Bonneville to identify program savings in 2016 and fund expanded work based on those priorities, but focus effort on identifying savings for FY 2017
- Cost Savings Work Group to work with Bonneville to develop a solicitation process for funding emerging priorities.

## Summary of Comments on Cost Savings Methodology July 7, 2015

We received seven sets of comments related to the Cost Savings Methodology discussed at the June Fish & Wildlife Committee meeting and released for public comment. Comments on the Methodology ranged from full support and use, to support without confidence that it would achieve goals, to full abandonment of the methodologies. All commenters generally agree, however, on creating a non-specific placeholder for funding emerging priorities in the currently available program planning budget. Most of the commenters had more to say on the subject (for full comments go to <http://www.nwcouncil.org/fw/cost-savings-group/>), which include but are not limited to the following:

### 1. WDFW

WDFW supports the emerging priorities listed in the 2014 Program and is eager to work with the Council and BPA to find funding to advance implementation of these underfunded needs. The methodology provides sound principles for guiding this effort but believes it will “create a large administrative burden with a low probability of achieving the goal. Other WDFW comments:

- Concerned about the process creating undue burden on non- BiOp and Accord projects
- One percent of the program for new priorities is a good starting place and could be ramped up over the coming years
- Target 2017 for savings since project most sponsors just had their budgets approved for 2016
- The Working Group is too narrow given the breadth of the projects and outcomes they will be asked to review
- Projects already undergo a great deal of scrutiny through the project review process.

### 2. USRT

Asserts that the process may be highly contentious, time intensive, and somewhat arbitrary.” USRT suggests simply making a request to Bonneville that a non-specific placeholder be designated for new priorities in the currently available fish and wildlife budget. Consider sticking with the \$3 million or 1 % of the program as a starting point and plan to ramp up to that amount over the next 2-3 years.

### 3. ODFW

Largely consistent with WDFW comments with the following additions:

- Project close-outs are not common, thus quarterly review period is too frequent, and 14 days is inadequate for project sponsors to respond after receiving notification of review.

- Bonneville uses this end of year savings to fund approved and ready property purchases, as well as appropriate commitments in MOA's and settlement agreements. This enables Bonneville to fully spend, but not exceed, the fiscal year's budget. ODFW suggests adding appropriate items from the program's emerging priorities to Bonneville's 'approved and ready' list of acquisitions.

#### **4. CRITFC**

Commented that the principle of looking at projects that have “unfavorable scientific review” is inappropriate as they already go through extensive review. Very strong opposition to the arbitrary and undefined nature of achieving cost savings from “projects where benefits are low or FCRPS nexus is weak.’ CRITFC also noted that tribal involvement is not included in the draft methodology and that tribal representation be identified in the review process. Also recommended that overhead/administrative costs and streamlining ISRP review be looked at as part of a broader cost savings effort.

#### **5. Northwest River Partners**

Fully supports this “clear and systematic approach to identifying opportunities to find cost savings within the Fish and Wildlife Program”. They reiterate their comments made on the Draft Fish and Wildlife Program, that “a collaborative effort between the Council and Bonneville can result in substantial savings that can be redirected to higher priority objectives in the Program to better benefit of fish and wildlife BPA’s customer investments”.

They support deferring on how best to spend any savings until actual savings have been secured. This bifurcated process will facilitate an objective review of potential cost reductions without creating unnecessary controversy over how best to expend any savings.

#### **6. PNGC Power**

Supportive of the Council’s proposed methodology to identify cost savings within the Fish and Wildlife Program. This makes it more likely that the Council, working with the BPA, will be able to recommend higher priority objectives in the Program to better benefit fish and wildlife and BPA’s customers’ investments.

#### **7. Public Power Council**

Supports the methodology and hopes it is an effort that will be long-lived in better managing the program. PPC feels it would be useful for the Council to bolster the authority that the workgroup has on implementing cost savings. In the past, there have been extensive efforts to create supportable recommendations regarding programs that could be reduced, but the follow-through on these efforts were sometimes limited. They are hopeful that this methodology creates a mechanism to induce action after the review is completed.

## METHODOLOGY TO IDENTIFY AND REVIEW PROJECTS FOR COST SAVINGS

### *(Cost Savings Methodology)*

This methodology sets forth the process whereby the Northwest Power and Conservation Council (Council), in coordination with Bonneville and with input from project sponsors, will identify and review on a regular basis projects for potential close-out or significant cost reduction, in order to redirect funding for new or other projects.

- I. **PROGRAM NEXUS:** This cost savings methodology supports the 2014 Fish and Wildlife Program, *Bonneville Funding for Emerging Program Priorities*, p. 116.
- II. **COST SAVINGS WORK GROUP:** The work contemplated under this methodology will be performed by a Cost Savings Work Group (workgroup), consisting of the Chair of the workgroup, the Council's Fish and Wildlife Director, and identified representative from Bonneville. Other state and central Council staff may provide input and support as needed.
- III. **PURPOSE OF THE WORKGROUP:** The purpose of the workgroup is to
  - receive the quarterly reports identifying potential projects for cost savings as set forth in paragraph IVA;
  - solicit comments from sponsors as set forth in paragraph IVB;
  - consider the comments received and other factors as described in paragraph IVC, and make findings in accordance with paragraph IVC;
  - present those findings to the Council for final recommendation to Bonneville as set forth in paragraph V.
- IV. **PROJECT IDENTIFICATION AND REVIEW:** Projects will be identified for potential cost savings on a quarterly basis as described in paragraph IVA. Sponsors of listed projects will be notified quarterly as described in IVB. The workgroup will review projects for potential cost savings on an annual basis as described in paragraph IVC. Those sponsors whose projects are subject to workgroup review will have the opportunity to submit comments as described in paragraph IVB.
  - A. **PROJECT IDENTIFICATION:** On a quarterly basis, Bonneville will prepare for submission to the workgroup a report containing the following information:
    1. A list of all projects scheduled to be closed out in the upcoming quarter

2. A list of all projects that may have a significant reduction in spending in the upcoming quarter or for the fiscal year (\$50,000 or more)
3. The amount of potential savings associated with each close-out or reduction in spending
4. A list of projects that might be considered for close-out consistent with the cost savings principles set forth in paragraph VIII of this methodology.

B. **SPONSOR NOTIFICATION AND COMMENT:** The workgroup will notify sponsors of listed projects that the project has been identified for potential cost savings. After receiving the final quarterly report from Bonneville, and prior to its annual review, the workgroup will notify sponsors of listed projects that the project will be reviewed by the workgroup as a source of cost savings for new solicitations resulting from close-out or budget reduction. Project sponsors may submit written comments within 14 days of receiving notification of review. Comments should be submitted to the Council's Fish and Wildlife Division Director and Bonneville's Fish and Wildlife Director.

C. **WORKGROUP REVIEW:** The workgroup will annually compile and analyze the quarterly reports and the comments received to inform the Council in its consideration of project close-outs and cost reductions. The process should be done in a way that works within Bonneville's budget and contracting constraints, and should commence in March of each year. The process will consider the completeness of the project list, consistency with the cost savings principles below, the risks and benefits associated with project close-out or reduction in funding, and any other concerns. The workgroup will present a final list with its complete analysis to the Fish and Wildlife Committee for consideration.

V. **CONSIDERATION BY THE FISH AND WILDLIFE COMMITTEE AND THE COUNCIL:** The Fish and Wildlife Committee will hear the presentation and recommendation of the workgroup at the April meeting of the Council to receive any additional public comment. The Council will make a recommendation to Bonneville based on the analysis performed by the workgroup. The Council decision should occur in May for consideration in Bonneville's next fiscal year start-of-year (SOY) budget.

VI. **IMPLEMENTATION OF CLOSE OUT OR COST REDUCTION:** Bonneville will work with project sponsors to implement the close out or cost reduction in a fair and deliberate manner (smart closeout).

- VII. **NEW PROJECT FUNDS:** Bonneville will set aside any funds identified as a result of this process for new projects consistent with the Council's Fish and Wildlife Program.
- VIII. **COST SAVINGS PRINCIPLES:** The following principles will guide cost savings efforts pursued under this methodology:
- A. Cost savings efforts will not impact any existing settlement agreements or accords between Bonneville and their partners.
  - B. Cost savings efforts will not affect the legal defensibility of the FCRPS Biological Opinion or Bonneville's ESA obligations.
  - C. Non-Accord, Non-BiOp projects will not be unfairly burdened by any cost savings efforts.
  - D. Bonneville will not overspend its fiscal year budget to fund emerging program priorities.
  - E. Any proposal to target savings from existing projects (subject to Principles A, B, and C) should be directed toward:
    - 1. Projects that are closing out
    - 2. Projects that receive unfavorable scientific or Council review
    - 3. Efficiencies achieved within existing projects or programs
  - F. Cost Savings efforts will have a reasonable lead time to ensure smart closeout, appropriate budget planning, and allow sponsors to transition.