

## Appendix

### Fish and Wildlife Funding Principles for Bonneville Power Administration Rates and Contracts

September 16, 1998

#### PREAMBLE

The purpose of these principles is to conclude the fish and wildlife funding process in which Bonneville has been engaged with various interests in the region and provide a set of guidelines for structuring Bonneville's subscription and power rate processes. The principles are intended to "keep the options open" for future fish and wildlife decisions that are anticipated to be made in late 1999 on reconfiguration of the hydrosystem and in early 2000 on the Northwest Power Planning Council's Fish and Wildlife Program.

The agreement resulting from these principles is significantly different from the last Bonneville Fish and Wildlife Budget Memorandum of Agreement. Bonneville and the other participants are not establishing a budget for the 2002–2006 period, and Bonneville will not be picking a single number for the rate case.

These principles will ensure that Bonneville's rates and power contracts give a very high probability of meeting all post-2001 financial obligations, including the future fish and wildlife budget commitment, and that all these obligations can be met without creating a new contract and rate "cliff" at the end of the next five-year rate period in 2006. Bonneville anticipates that after 1999 its fish and wildlife budget commitment for the post-2001 period will be set out in a budget agreement that, among other things, addresses accountability and provides that funds carried forward under the agreement will remain available for expenditure for the benefit of fish and wildlife.

Bonneville's contracts and rates historically have been set in a manner that assumes there is a low, but not zero probability that it will be unable to cover its costs. Continuing this approach, in such circumstances (e.g. low markets, low water, etc.) all of Bonneville's costs will be reviewed, recognizing that fish and wildlife obligations are one of its highest priorities. Guided by the principles below, Bonneville's goal is to reduce the chances of its being unable to cover its costs to an acceptably low level. Bonneville commits to use these principles and financial mechanisms to achieve this goal. These principles have been reviewed by the Office of Management and Budget and are consistent with the administration's principles and priorities.

#### PRINCIPLES

Bonneville will proceed with its power rate case and contracts for its subscription products for the period 2002–2006 using the following principles:

1. Bonneville will meet all of its fish and wildlife obligations once they have been established, including its trust and treaty responsibilities.
2. Bonneville will take into account the full range of potential fish and wildlife costs.
  - Bonneville will use the full range of potential fish and wildlife costs and financial impacts during the 2002–2006 rate period (currently estimated at \$438 million to \$721 million) for planning purposes. This range is based upon the current calculation of the five-year average financial impact on Bonneville of 13 long-term alternatives being evaluated in the Region for configuration of the Federal Columbia River Power System and an estimated range of costs for implementing the Northwest Power Planning Council's Fish and Wildlife Program to protect, mitigate, and enhance fish and wildlife on the Columbia River and its tributaries.
  - In setting its rates Bonneville will incorporate the range of \$438 million to \$721 million in its revenue requirement using a method that calculates probabilities across a range of costs in the same manner as Bonneville treats other cost and revenue uncertainties in its rate setting. Because of the uncertainties of the decisions on fish and wildlife at this time, Bonneville will conduct an analysis that assumes that all 13 system configuration alternatives are equally likely to occur. For the direct program, Bonneville will assume that costs have an equal probability of falling anywhere within the current range of \$100 million - \$179 million.
3. Bonneville will demonstrate a high probability of Treasury payment in full and on time over the 5-year rate period.
  - A 100 percent probability of Treasury payment is not achievable, but BPA's new rates must be designed to maintain or improve Treasury payment probability, even in view of the range of fish costs.
  - Bonneville will demonstrate a probability of Treasury payment in full and on time over the 5-year rate period at least equal to the 80 percent level established in the last rate case and will seek to achieve an 88 percent level.
4. Given the range of potential fish and wildlife costs, Bonneville will design rates and contracts which will position Bonneville to achieve similarly high Treasury payment probability for the post-2006 period by building financial reserve levels and through other mechanisms.
5. Bonneville will minimize rate impacts on Pacific Northwest power and transmission customers.

- Bonneville's goal is to avoid a wholesale rate increase for requirements customers (including small farm and residential customers of investor owned utilities) by seeking an additional cost reduction of \$130 million in internally manageable costs that are not fish and wildlife costs.
6. Bonneville will adopt rates and contract strategies that are easy to implement and administer.
  7. Bonneville will adopt an approach that is flexible in order to respond to a variety of different fish and wildlife cost scenarios.
    - To create financial flexibility and to avoid another contract “cliff” in 2006, Bonneville's goal will be to have 35 percent to 45 percent of its total post-2001 power sales, including secondary sales, in contract terms of three years or less, in short-term surplus sales and/or in cost-based indexed sales.
    - All sales to requirements customers will be renewable at cost-based rates which will reflect changes in Bonneville's costs subsequent to those reflected in the initial subscription rate.
  8. Bonneville will use a combination of the following mechanisms to achieve principles 1-7. The specific mix and design of these mechanisms will be determined in the rate case and subscription process, but the mix chosen will meet the above principles:
    - Implementing prudent additional cost-reduction efforts to reduce internally manageable costs before exercising any contingent stranded cost recovery mechanism
    - Use of Bonneville’s existing authorities if needed to implement stranded costs recovery on the transmission system, while simultaneously seeking more robust authorities legislatively.
    - Selling subscription products on staggered contract terms - some shorter than five years (see Principle 6) and some for longer than five years.
    - A cost recovery adjustment clause (CRAC) in power contracts for subscription customers.
    - An option fee from some customers in return for increased price predictability after the initial contract period.
    - Cost-based indexed pricing for some of its products.
    - Using reserve balances carried into the 2002–2006 rate period from the prior period.

## ADMINISTRATION COMMITMENTS

- The Administration will extend the availability of section 4(h)(10)(C) credits for Bonneville's costs related to its fish and wildlife programs for the period 2002–2006 on the same terms as established for the 1995–2001 period.
- The Administration will confirm continued access through 2006 to any funds remaining in the Fish Cost Contingency Fund on September 30, 2001, on the same terms as those established for the period 1995–2001.
- The Administration commits to support Bonneville in its Cost Review and revenue enhancement objectives.