

ADMINISTRATOR'S DECISION IMPLEMENTATION OF THE FY 2019 SPILL SURCHARGE

May 2019



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IMPLEMENTATION OF THE FY 2019 SPILL SURCHARGE

1. Introduction

The Spill Surcharge, Appendix C of Bonneville Power Administration's (Bonneville) 2018 Power Rate Schedules and General Rate Schedule Provisions (GRSPs), was established in the BP-18 rate proceeding.¹ Pursuant to Appendix C, Bonneville must calculate and, if appropriate, implement the Spill Surcharge for Fiscal Year (FY) 2019.

The Spill Surcharge is a formula rate adjustment that approximates the additional cost that power customers would have been charged if Bonneville had known planned fish passage spill operations when setting final BP-18 rates. It is calculated independently for each year of the FY 2018–2019 rate period based on planned spill operations for each year.

This document contains the decision of the Bonneville Administrator to implement no Spill Surcharge for FY 2019. A preliminary proposal of no surcharge was made available to customers and interested parties for their review on April 8, 2019, and a comment period was provided during the period of April 18 through May 2, 2019. This document also addresses the comments on the preliminary proposal received from customers and interested parties, and describes the calculation of the zero Spill Surcharge Amount for FY 2019.

1.1 Summary of the FY 2018 Spill Surcharge

Bonneville implemented aggressive measures to manage costs across the agency in FY 2018, affecting all organizational cost pools² and nearly every aspect of Bonneville's business.³ As a result of these cost-management actions for FY 2018, Bonneville reduced its operating year budget by \$64 million. These budget reductions across Bonneville's programs, including those forecast for Fish and Wildlife, would have occurred regardless of the existence of the Spill Surcharge.

On June 21, 2018, Bonneville implemented the Spill Surcharge by adopting the final FY 2018 Spill Surcharge Amount of \$10.2 million, the final FY 2018 Spill Surcharge rate of 0.71 mills per kilowatthour for June–September 2018, and the final FY 2018 Annual Spill Surcharge rate of 0.23 mills per kilowatthour. In order to adopt this surcharge for FY 2018, Bonneville offset the calculated average cost of spill by \$20 million of Fish and Wildlife cost reductions. The costs of fish passage spill (a combination of forgone power sales revenue and increased power purchases) are classified as a Fish and Wildlife cost.⁴ Allocating a forecast reduction in Fish and Wildlife

¹ See Administrator's Final Record of Decision, BP-18-A-04, at 62-103 (July 2017), <https://www.bpa.gov/Finance/RateCases/BP-18/bp18/Final%20Proposal/BP-18-A-04%20Final%20ROD.pdf>.

² For budgeting purposes, Bonneville's four organizational cost pools are Power, Transmission, Corporate, and Chief Administrative Office.

³ See Bonneville Power Admin., U.S. Dep't of Energy, *Quarterly Business Review* (May 1, 2018), <https://www.bpa.gov/Finance/FinancialPublicProcesses/QuarterlyBusinessReview/2013QBRDocuments/Quarterly%20Business%20Review%20May%202018.pdf>.

⁴ See, e.g., Northwest Power and Conservation Council, *2016 Columbia River Basin Fish and Wildlife Program Costs Report 4*, <https://www.nwcouncil.org/reports/2016-columbia-river-basin-fish-and-wildlife-program-costs-report>.

Program spending to the Spill Surcharge formula in order to offset the costs of increased spill was consistent with this longstanding cost classification and part of the broader across-the-board cost-management efforts in FY 2018.

1.2 Summary of the FY 2019 Spill Surcharge

Just as in FY 2018, cost-reduction measures were implemented across the agency in FY 2019. Bonneville's FY 2019 forecast for Integrated Program Review costs is \$66 million below the rate case forecast.⁵ Also as in FY 2018, these cost reductions across Bonneville's programs, including those forecast for Fish and Wildlife, would have occurred regardless of the existence of the Spill Surcharge.

In late 2018, Bonneville, the U.S. Army Corps of Engineers, and the Bureau of Reclamation collaboratively developed the *2019–2021 Spill Operation Agreement* with the states of Washington and Oregon and the Nez Perce Tribe.⁶ This Agreement describes a flexible spring spill operation premised on achieving benefits to salmon and steelhead from increased spring spill, while also managing costs to hydropower generation. This Agreement affects only the spill and hydropower operations at the lower Snake River and lower Columbia River projects and has an objective that, at a minimum, Bonneville will be no worse off financially compared to the 2018 spring fish passage spill operations⁷ ordered by the U.S. District Court for the District of Oregon.

Once there was sufficient information about planned spill operations for Spring 2019, Bonneville also had to decide which, if any, of the FY 2019 cost reductions would be attributed as an offset to the Spill Surcharge. Similar to the decision for the FY 2018 Spill Surcharge, Bonneville again proposed to offset the Spill Surcharge Amount with forecast Fish and Wildlife program budget reductions, consistent with how Bonneville manages budgets by organizational cost pool.

This FY 2019 Spill Surcharge decision, which has eliminated the need for a surcharge through cost-management actions, was enabled by Bonneville's continued commitment to meeting its Strategic and Financial Plan goals of improving its overall financial health in both cost management and financial resiliency. This effort will provide for long-term financial sustainability and allow Bonneville to continue providing competitive cost-based electric power and transmission services and fulfilling other valuable public service responsibilities for the region in FY 2019.

⁵ See Q2 FY 2019 Quarterly Financial Package as of March 31, 2019, p. 2, <https://www.bpa.gov/Finance/FinancialInformation/FinancialOverview/FY2019/Q2%20FY%202019%20Quarterly%20Financial%20Package%20042919.pdf>.

⁶ See Status Report Re: 2019-2021 Spill Operations Agreement During the NEPA Remand Period, Exhibit 1, *Nat'l Wildlife Fed'n v. Nat'l Marine Fisheries Serv.*, No. 3:01-CV-00640-SI (D. Or. Dec. 12, 2018), https://www.bpa.gov/efw/FishWildlife/SpillOperationAgreement/doc/ECF-2298_Spill-Notice-and-Agreement.pdf.

⁷ See Administrator's Decision: Implementation of the FY 2018 Spill Surcharge, June 2018, https://www.bpa.gov/Finance/RateCases/surcharge18/surcharge18documents/Spill_Surcharge_Implementation_FY2018_06-21-2018.pdf.

2. The FY 2019 Spill Surcharge

2.1 Description of the Spill Surcharge

The Spill Surcharge has two overarching components, one of which increases revenue while the other reduces expenses. The Spill Surcharge is designed to ensure that Bonneville is able to recover forecast costs if planned spill levels increase for FY 2018 and/or FY 2019 by increasing Bonneville's revenue collection from Priority Firm, Industrial Firm, and New Resource Firm energy sales when the planned annual spill levels increase relative to the spill levels assumed in setting rates; or, on balance, by reducing expenses to achieve the assumed level. Under the Spill Surcharge, Bonneville evaluates each fiscal year of the rate period independently. See Administrator's Decision: Implementation of the FY 2018 Spill Surcharge, June 2018, for a full description of the Spill Surcharge formula components and implementation provisions.⁸

2.2 FY 2019 Spill Surcharge Calculation

Bonneville calculated the Spill Surcharge Amount for FY 2019 in accordance with the formula specified in the Spill Surcharge. The resulting Spill Surcharge Amount is zero. A summary table showing each component is provided in Attachment 1. Documentation is provided on Bonneville's website.⁹ The calculation of the Spill Surcharge Amount described below was made available to customers and interested parties for their review and comment.¹⁰

Spill Cost Component

In order to determine the cost associated with an increase in planned annual spill, the 2018 final rate proposal hydro study was rerun using new spill criteria (spill assumptions) shown in the documentation.¹¹ These spill criteria were updated to reflect the spill plan described in the *2019–2021 Spill Operation Agreement* dated December 2018. Hydro study outputs reflecting the new spill criteria were run through the AURORA[®] model to update lack-of-market spill, which was subsequently incorporated into the hydro study.

The new spill criteria resulted in a 223 aMW decrease in 80-year average hydro generation relative to the BP-18 final rate studies and a FY 2019 cost (*i.e.*, decreased revenue) of \$34.9 million using the template established in the BP-18 ratemaking process.

Secondary Reduction (SecR)

Based on an electricity price forecast using the AURORA[®] model, the prices at Mid-C increase during the spill months that lose Federal generation. Forecast price changes relative to prices in the BP-18 final rate proposal are: \$1.14/MWh for April, \$1.33/MWh for May, \$0.93/MWh for June, -\$0.16/MWh for July, and \$0.14/MWh for August. These numbers reflect a forecast of the generally higher energy prices the entire region pays as a result of changes in planned spill

⁸ *Id.*

⁹ Available at <https://www.bpa.gov/Finance/RateCases/surcharge19/Pages/default.aspx>.

¹⁰ See *infra* Section 2.4, Review of Public Comments.

¹¹ The original spill criteria can be found on page 111 of the Power Loads and Resources Study Documentation, BP-18-FS-BPA-03A, <https://www.bpa.gov/Finance/RateCases/BP-18/Pages/BP-18-Final-Proposal.aspx>.

operations at the eight Federal dams equipped with fish passage facilities. In total, the price effect contributes to an additional \$6.8 million in modeled *SecR*.

Cost Reductions (CostR)

As described above, Bonneville has been working on reducing its program budgets across the agency as part of a larger exercise delivering on Strategic Goal 1 in the Bonneville 2018–2023 Strategic Plan—to strengthen financial health. Consistent with Bonneville’s Strategic Plan and its BP-18 Spill Surcharge formula, the calculated cost of additional spill is being offset through Fish and Wildlife spending reductions in FY 2019 compared to those assumed for setting BP-18 rates. Savings include cost-management actions within contracts (e.g., restrictions on travel, training, and discretionary spending) and reform efforts within research, monitoring, and evaluation programs that occurred in FY 2018 and carry forward. Bonneville worked with Fish and Wildlife project partners to navigate adjustments to the program and reset the budget for FY 2019. Reductions reflect program efficiencies and reduced contract budgets that were agreed upon when budgets were set for FY 2019. Bonneville did not need to make further program or project cuts in FY 2019 to offset the spill surcharge. All forecast cost reductions are relative to the costs modeled in Bonneville’s final BP-18 rates.

Bonneville is forecasting it will spend \$34 million less than its rate case estimates on Fish and Wildlife in FY 2019; actual cost reductions will occur in the normal course of Fish and Wildlife program management. To calculate *CostR*, \$34 million in forecast cost reductions for Fish and Wildlife spending is reduced by 22.3 percent to account for the reduction of the credit that Bonneville takes from the U.S. Treasury for non-power-related fish mitigation efforts. The credit is authorized pursuant to Section 4(h)(10)(C) of the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act or NWPA) so that Bonneville pays only for the power share of fish mitigation programs and not for the share of those costs allocated to the other purposes of the FCRPS, such as navigation and flood risk management.¹² Bonneville’s cost savings of \$34 million translates to \$26.4 million in actual savings after adjusting for the reduced credit.

Spill Surcharge Amount and Rates

With a Spill Surcharge Amount of zero, no Spill Surcharge will be charged to customers for FY 2019.

¹² 16 U.S.C. § 839b(h)(10)(C). Bonneville is responsible for funding the “power share”—the proportion of the multiple designated purposes of the dams considered to be power-related—of the total project investment costs and ongoing operations and maintenance costs of the Federal projects that comprise the FCRPS. The power share is determined as part of each individual dam and reservoir project’s authorization process and is derived from an analysis of the benefits from all of the project’s congressionally authorized purposes (e.g., hydropower generation, flood risk management, irrigation). Bonneville is responsible for 100 percent of all power-specific costs and the power share of all joint costs, such as fish costs, for each project. For the 14 Federal projects that are the subject of the ongoing litigation in *Nat’l Wildlife Fed’n v. Nat’l Marine Fisheries Serv.*, No. 3:01-cv-0640-SI (D. Or.), the average power share of joint costs is approximately 84 percent. Bonneville Power Admin., BP-18 Final Rate Proposal, Statements A–F, F-2 (July 2017), available at <https://elibrary.ferc.gov/idmws/common/OpenNat.asp?fileID=14647584>.

2.3 Notification of Preliminary FY 2019 Spill Surcharge

Appendix C, Section F, of Bonneville’s BP-18 Power Rate Schedules and GRSPs provides that Bonneville will hold at least one public meeting to review the calculation of the preliminary Spill Surcharge Amount, Spill Surcharge Rate, and the Annual Spill Surcharge Rate no later than May 31 of each Fiscal Year. This meeting occurred in Bonneville’s Rates Hearing Room on April 18, 2019. In advance of the meeting, on April 8, Bonneville provided documentation of the calculations described in Section 2.2 above, as well as explanatory information. The Spill Surcharge, Section F, also states that Bonneville will provide at least 10 business days for comment on the preliminary data and assumptions. Bonneville provided the interested parties from April 18 through May 2 to offer comments on the proposed implementation of the Spill Surcharge for FY 2019. Finally, the Spill Surcharge, Section F, directs Bonneville to issue the final Spill Surcharge Amount and rates no later than 14 calendar days after the comment period closes, and to apply such rates in the next available billing cycle.

2.4 Review of Public Comments

Bonneville received five comments on its proposal not to implement a Spill Surcharge for FY 2019.¹³ The Public Power Council (PPC) supports Bonneville’s proposal and appreciates the agency’s “commitment to implement cost control measures consistent with its strategic priorities and the best available science related to fish and wildlife mitigation.”¹⁴ PPC looks forward to “working closely with Bonneville to sustain and enhance competitiveness efforts in all areas of the agency’s operations.”¹⁵

Similar positions were stated by Northwest Requirements Utilities (NRU) and Snohomish County PUD, which support the efforts Bonneville has made to identify cost reductions across the agency, and in this case, related to the Fish and Wildlife program.¹⁶ NRU and Snohomish are committed to environmental stewardship, consistent with Bonneville’s strategic objective to prioritize fish and wildlife investments based on biological effectiveness and mitigation for FCRPS impacts; and manage fish and wildlife program costs at or below inflation, inclusive of new obligations and commitments.¹⁷

In addition, Snohomish “supports the innovation and collaboration shown by the Agencies in order to implement flexible spill as an *interim* measure, as prescribed under the Flexible Spill Agreement for FY2019 through FY2021” and “is hopeful that Flexible Spill Operations can achieve the objectives of protecting salmon while managing hydropower costs throughout the implementation period.”¹⁸

Bluefish.org (Bluefish) states that “[t]he suggestion, as currently proposed in draft language—that BPA’s Salmon Recovery efforts can be reduced—is unsupportable, and antithetical to the preponderant evidence of ESA-listed species decline and ecosystem collapse.”¹⁹ Bluefish

¹³ <https://publiccomments.bpa.gov/CommentList.aspx?ID=378>.

¹⁴ PPC at 1.

¹⁵ *Id.*

¹⁶ NRU at 1; Snohomish at 1.

¹⁷ *Id.*

¹⁸ Snohomish at 1. Emphasis in original.

¹⁹ Bluefish at 1.

does not identify where there is language that suggests that Bonneville’s efforts on behalf of salmon and steelhead can be reduced. The lack of a Spill Surcharge for FY 2019, particularly given the context noted below, will not prevent Bonneville from remaining fully committed to meeting its legal obligations for fish and wildlife.

Bluefish states that “[i]n light of [Bonneville’s] legal obligations, the implied suggestion that cost reductions should come from BPA’s Fish and Wildlife program is troublesome.”²⁰ Bluefish believes “[c]ost reductions should come from all departments whenever and wherever cost cutting is available,” and “[t]o suggest that the Fish programs should dominate this cost cutting (including cuts to the important public outreach provided by the Columbia Basin Bulletin) is counter to the [Bonneville] Administrator’s legal obligation.”²¹ In response to these comments, first, Bonneville’s overall cost reductions have come from all Bonneville departments. For purposes of the Spill Surcharge, however, as the Administrator previously noted, cost reductions from the Fish and Wildlife program have been attributed to the *CostR* component of the Spill Surcharge because of the direct link between the reasons for increased spill (such as court orders in litigation and agreements related to ESA-listed salmon and steelhead) and the purpose of the Spill Surcharge: to ensure that Bonneville is able to recover the costs it incurs from such increased spill. Furthermore, as Bonneville previously noted, the cost reductions from the Fish and Wildlife program include cost management actions within contracts (*e.g.*, restrictions on travel, training, and discretionary spending) and reform efforts within Research, Monitoring, and Evaluation (RME) programs that occurred in FY 2018 and carry forward. Bonneville is not proposing further program or project cuts in FY 2019. Thus, the cost reductions attributed to *CostR* for purposes of reducing the FY 2019 Spill Surcharge are cost reductions that would have occurred in the absence of the Spill Surcharge.

Bluefish’s comments also compare “the recent spill proposal versus the operating EIS’ [s] Biologically Preferred Alternative; Lower Snake River dam breaching”²² Although Bonneville understands and respects Bluefish’s position on this issue, it is not within the scope of the implementation of the FY 2019 Spill Surcharge. The Spill Surcharge was established in Bonneville’s BP-18 power rate case. The terms of the Spill Surcharge cannot be revised except in the context of a formal rate hearing pursuant to Section 7(i) of the Northwest Power Act.²³ Under the terms of Bonneville’s established BP-18 rates, which have been confirmed and approved by the Federal Energy Regulatory Commission,²⁴ Bonneville is unable to reflect the ongoing analysis of alternatives in the Columbia River System Operations Environmental Impact Statement when implementing the Spill Surcharge. These alternatives include breaching the four lower Snake River dams.²⁵ The analysis of the costs, benefits, and tradeoffs of different levels of spill, the breaching of the four lower Snake River dams, and many other measures under evaluation to develop a strategy for the long-term operation, maintenance, and configuration of the Columbia River System is being conducted in the

²⁰ *Id.* at 2.

²¹ *Id.*

²² *Id.*

²³ 16 U.S.C. § 839e(i).

²⁴ Bonneville Power Admin., 162 FERC ¶ 61,248 (2018).

²⁵ See BP-18 Power Rate Schedules and General Rate Schedule Provisions, BP-18-A-04-AP03, available at <https://www.bpa.gov/Finance/RateCases/BP-18/Pages/BP-18-Final-Proposal.aspx>.

ongoing Columbia River System Operations Environmental Impact Statement and is outside the scope of the current Spill Surcharge implementation process.

Bonneville received a fifth comment from a private citizen.²⁶ The comment incorrectly conflates Bonneville's basic funding of the Fish and Wildlife program with the type of cost reductions that are attributed to the *CostR* component of the Spill Surcharge for FY 2019.

3. Decision

Based upon the foregoing, I hereby implement the Spill Surcharge by adopting the final FY 2019 Spill Surcharge Amount of zero, with the result that no Spill Surcharge will be charged to customers for FY 2019.

Issued at Portland, Oregon this 16th day of May, 2019.

/s/ Elliot E. Mainzer

Elliot E. Mainzer
Administrator and Chief Executive Officer

²⁶ Pace at 1.

Attachment 1

Attachment 1

Final FY 2019 Spill Surcharge Amount

Formula Component	Amount	Description
Spill Cost	\$34.9 million	The average lost generation in FY 2019 due to more planned spill, over the modeled 80 historical water year record, multiplied by the rate case forecast Mid-C electricity price.
Cost Reductions (<i>CostR</i>)	<u>(\$26.4 million)</u>	Program spending reductions relative to those assumed for setting BP-18 rates. Represents a forecast reduction of \$34 million of F&W costs and the corresponding reduction in the NW Power Act Section 4(h)(10)(C) credit (22.3% credit on F&W costs).
	\$8.5 million	
Non-Slice	<u>× .7726</u>	Adjusts formula to reflect costs associated with non-Slice PF power sales only.
	\$6.6 million	
Secondary Reduction (<i>SecR</i>)	<u>(\$6.8 million)</u>	Accounts for the impact that more spill would have on the market-clearing price for the remaining secondary sales.
FY 2019 Spill Surcharge Amount	\$0	

