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**BONNEVILLE POWER
ADMINISTRATION**

**Obligations to Fish and
Wildlife in the Pacific
Northwest**

Statement of Jim Wells, Director, Natural Resources and Environment
Team



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Highlights of [GAO-03-844T](#), a report to the Senate Committee on Indian Affairs

Why GAO Did This Study

The Bonneville Power Administration produces a large portion of the Pacific Northwest's electric power, largely from hydroelectric projects in the Federal Columbia River Power System. Bonneville also has obligations to protect, mitigate, and enhance fish and wildlife populations affected by these hydroelectric projects. In the past several years, Bonneville has experienced financial difficulties, in part because of rising costs of providing power, lower-than-projected revenue from selling surplus power, and drought conditions. Bonneville's financial situation may adversely affect fish and wildlife. Stakeholders have expressed concern that Bonneville has effectively reduced spending on fish and wildlife programs.

This testimony addresses (1) Bonneville's statutory and other obligations to support fish and wildlife programs, (2) Bonneville's historical spending and other efforts in support of fish and wildlife, (3) Bonneville's current financial condition, (4) Bonneville's recent actions that affect fish and wildlife programs, and (5) challenges Bonneville faces in supplying electricity to the region while simultaneously protecting, mitigating and enhancing fish and wildlife.

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To view the full product, including the scope and methodology, click on the link above. For more information, contact Jim Wells at (202) 512-3841 or wellsj@gao.gov.

BONNEVILLE POWER ADMINISTRATION

Obligations to Fish and Wildlife in the Pacific Northwest

What GAO Found

In accordance with the Pacific Northwest Electric Power Planning and Conservation Act of 1980, Bonneville must ensure an adequate, efficient, economical, and reliable power supply for the Pacific Northwest while also protecting, mitigating and enhancing fish and wildlife. Under other laws and presidential directives, Bonneville is also required to consult with Indian tribes and fulfill trust responsibilities for fish and wildlife. Finally, Bonneville must comply with the Endangered Species Act as it pertains to fish and wildlife that have been listed as either endangered or threatened.

Between fiscal years 1997 and 2001, Bonneville spent over \$1.1 billion to support fish and wildlife programs, primarily salmon and steelhead. These expenditures funded fish and wildlife projects undertaken by Bonneville, other federal agencies, Indian tribes, private and state entities. Bonneville has also funded related operations, maintenance, and capital costs for the Army Corps of Engineers, the Bureau of Reclamation, and the Fish and Wildlife Service. Additionally, Bonneville estimates that spilling water from dams to enhance fish survival has resulted in over \$2.2 billion in foregone revenue or increased power purchases.

Bonneville is currently in a financial crisis. Cash reserves have fallen and Bonneville estimates an increased risk that it will miss future Treasury debt payments. To avoid defaulting on Treasury debt and to cover its costs, Bonneville has increased its power rates by more than 40 percent since fiscal year 2001, and is considering further increases.

Recent Bonneville actions appear to have caused financial difficulties for some fish and wildlife programs. Representatives of the Northwest Power Planning Council and some Indian tribes have pointed out that a change in Bonneville's budgeting approach resulted in the loss of around \$40 million in fish and wildlife funding for fiscal year 2003. Bonneville described the change as necessary to improve management controls over fish and wildlife program funding. Bonneville has also placed on hold plans to acquire land to be used as habitat for fish and wildlife.

Bonneville's two roles, as supplier of economical and reliable power and as protector of fish and wildlife, inherently conflict. Bonneville spills water to benefit fish and directly funds fish and wildlife projects. These actions reduce power revenue and increase costs. On the other hand, demands on Bonneville to supply greater amounts of power put pressure on fish and wildlife, through more intensive use of generating facilities at the expense of spilling water, and reduced revenues available for funding fish and wildlife programs as has occurred during the current crisis. Given Bonneville's dual roles, conflicts are inevitable and will likely become more intense if growing power demands bump up against increased efforts to mitigate damage to fish and wildlife.

Mr. Chairman and Members of the Committee:

We are pleased to be here today to discuss the Bonneville Power Administration's roles in providing power and protecting fish and wildlife in the Northwest. As you know, Bonneville provides a large fraction of the Pacific Northwest's electric power, produced largely from hydroelectric projects in the Federal Columbia River Power System. Bonneville also has obligations to protect, mitigate, and enhance fish and wildlife populations affected by these hydroelectric projects. Through its revenues from power sales, Bonneville provides the majority of fish and wildlife program money in the region. Over the past 20 years, demand for electric power in the region has grown and Bonneville's involvement in and expenditures on fish and wildlife programs have increased.

In the past several years, Bonneville has faced increasing financial difficulty, in part because of drought conditions, rising costs of providing power, and lower-than-projected revenue from selling surplus power. This financial situation has implications for fish and wildlife. For example, during the drought of 2001, Bonneville determined that in order to maintain an adequate and reliable power supply during the declared power emergency, available water would be used to generate electricity rather than spilled (released) over the dams to aid juvenile fish passage. Significantly reducing the amount of water spilled over the dams can affect the survival rates of some juvenile populations of migrating fish, which in turn ultimately reduces the number of adults returning to spawn in the future. In addition, a number of stakeholders have expressed concern that some Bonneville actions have effectively reduced spending on fish and wildlife programs.

In this context, you asked us to (1) discuss Bonneville's statutory and other obligations to support fish and wildlife programs, (2) describe Bonneville's historical spending and other efforts in support of fish and wildlife protection and enhancement, (3) evaluate Bonneville's current financial condition, (4) discuss some of Bonneville's recent management actions that affect fish and wildlife programs, and (5) discuss challenges Bonneville faces in supplying electricity to the region while simultaneously protecting,

mitigating, and enhancing fish and wildlife. To meet these objectives, we relied on information in our previous report on salmon and steelhead recovery efforts¹, interviewed officials at Bonneville, and interviewed stakeholders in Bonneville's fish and wildlife programs, including the Northwest Electric Power and Conservation Planning Council (Power Planning Council)² and the Columbia River Intertribal Fish Commission.³ At the request of Chairman Hobson and Ranking Member Visclosky of House Appropriations, Subcommittee on Energy and Water Development, we are also currently in the process of reviewing Bonneville's financial situation. This statement includes the preliminary findings of this effort as well.

In summary, we found that:

- In accordance with the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act) of 1980, Bonneville is required to ensure an adequate, efficient, economical, and reliable power supply for the Pacific Northwest and also to protect, mitigate, and enhance fish and wildlife affected by operation of the Federal Columbia River Power System. Under the provisions of various treaties, laws, court cases, and presidential directives, Bonneville is required to consult with Indian tribes and to fulfill trust responsibilities for fish and wildlife. Under various laws, Bonneville also funds fish and wildlife mitigation costs incurred by the Army Corps of Engineers and the Bureau of Reclamation. These costs may arise as a result of compliance with biological opinions issued by the National Oceanographic and Atmospheric Administration (NOAA) Fisheries (formerly the National Marine

¹ U.S. General Accounting Office, *Columbia Basin Salmon And Steelhead: Federal Agencies' Recovery Responsibilities, Expenditures and Actions*, GAO-02-612 (Washington, D.C.: July 2002).

² The Power Planning Council was authorized by the Pacific Northwest Electric Power Planning and Conservation Power Act of 1980 (Northwest Power Act). It consists of representatives of the states of Idaho, Montana, Oregon, and Washington and is funded by Bonneville. The Northwest Power Act directs the Power Planning Council to develop 1) a plan to guarantee adequate and reliable energy for the Pacific Northwest and 2) a program to protect and rebuild populations affected by hydropower development in the Columbia River Basin.

³ The Columbia River Intertribal Fish Commission is the coordinating agency for fishery management policies of the four Columbia River treaty tribes, (the Confederated Tribes of the Warm Springs Reservation of Oregon, the Confederated Tribes and Bands of the Yakama Indian Nation, the Confederated Tribes of the Umatilla Indian Reservation, and the Nez Perce Tribe).

Fisheries Service) and the Fish and Wildlife Service or as mitigation measures recommended in the Columbia River Fish and Wildlife Program adopted by the Power Planning Council. In addition, a number of fish populations in the region have been listed as either threatened or endangered under the Endangered Species Act. With these listings, Bonneville and other federal agencies became responsible for ensuring that operation of the Federal Columbia River Power System does not jeopardize the continued existence of these populations.

- From fiscal years 1997 through 2001, Bonneville spent over \$1.1 billion in support of fish and wildlife programs—primarily to benefit salmon and steelhead. Some of these expenditures have funded fish and wildlife efforts, including those undertaken by Bonneville, other federal agencies, Indian tribes, and the four northwest states (Idaho, Montana, Oregon, and Washington). Bonneville has also funded operations and maintenance and capital costs for the Army Corps of Engineers, Bureau of Reclamation, and the Fish and Wildlife Service for projects such as fish bypass facilities at dams and fish hatcheries. In addition, Bonneville estimates that from fiscal years 1997 through 2001, spilling water from dams and augmenting flows to enhance fish survival resulted in over \$2.2 billion in forgone revenues or increased power purchases.
- Bonneville is currently in a financial crisis. Cash reserves have fallen and Bonneville has estimated an increased risk that it will miss future Treasury debt payments. Specifically, for the fiscal year 2002-2006 rate period, Bonneville estimates that its costs will be about \$5.3 billion higher than for the previous five-year rate period and revenues will be about \$1.4 billion less than projected in June 2001. To avoid defaulting on Treasury debt and to cover its costs as required by law, Bonneville has increased its rates for power by over 40 percent since fiscal year 2001 and is considering further increases. In addition, Bonneville has plans to reduce costs and hopes that favorable water and price conditions will enable it to increase revenues from power sales.

- Some recent management actions by Bonneville appear to have adversely affected fish and wildlife programs enhancement efforts. Specifically, Power Planning Council staff and representatives of some Indian tribes have pointed out that a change in Bonneville's approach to budgeting for fish and wildlife expenditures, adopted in October 2002, caused the loss of around \$40 million in planned fish and wildlife funding for 2003. Stakeholders have also observed that the budgeting change was not well understood by program managers and that funding was lost when expenditures incurred in fiscal year 2002 were counted by Bonneville against fiscal year 2003 fund levels. Bonneville staff described the change as necessary to improve management controls over the funding of fish and wildlife programs but acknowledged that the change in budgeting was abrupt and not well understood by many of those affected by the change. Bonneville has also placed on hold its plans to acquire land to be used as habitat for fish and wildlife and is working with the Power Planning Council and constituents on how to prioritize purchases in the future.
- Bonneville's dual roles—as supplier of economical and reliable power and as protector of fish and wildlife—inherently conflict. Supporting fish and wildlife efforts, either by spilling water that could otherwise be used to generate electricity, or by directly funding other fish and wildlife programs, can only be achieved by raising Bonneville's power rates. On the other hand, demands on Bonneville to supply greater amounts of power will put pressure on fish and wildlife, either through more intensive use of generating facilities at the expense of spilling water, or through reduced revenues available for funding fish and wildlife programs as has occurred during the current crisis. Bonneville's management problem is more severe in drought years—lower water availability causes both higher electricity prices and natural stresses on fish populations—and will only increase as growing populations and demand for power bump up against increased efforts to mitigate fish and wildlife.

BACKGROUND

The Columbia River Basin is North America's fourth largest, draining about 258,000 square miles and extending predominantly through the states of Washington, Oregon,

Idaho, and Montana and into Canada. The basin contains over 250 reservoirs and about 150 hydroelectric projects, including dams on the Columbia River and its primary tributary, the Snake River. The Columbia River Basin also provides habitat for many species of fish and wildlife, including a number of threatened and endangered species.

The development of the reservoirs and hydroelectric projects in the basin has posed hazards for some of the species in the basin, especially anadromous fish, such as salmon and steelhead. Such fish are born in freshwater streams, where they live for 1 to 2 years before migrating down river to the ocean to mature. After 2 to 5 years, the fish migrate back to the freshwater streams to spawn a new generation. To migrate past a dam, juvenile fish must either go through its turbines, go over the spillway, use other installed bypass systems, or be transported around the dams in trucks or barges. Each alternative has risks and increases the mortality rate of juvenile fish. To return upstream to spawn, adult fish must find and use fish ladders provided at each of the dams.

Bonneville is responsible for marketing the power that the 31 federal dams in the Federal Columbia River Power System produce. Depending upon the annual amount of water available to the system, Bonneville provides about 45 percent of the electric power used in the Pacific Northwest each year. In addition, Bonneville's transmission system accounts for about 75 percent of the region's high-voltage grid, and includes major transmission links with other regions. Through its revenues from power sales, Bonneville provides the majority of fish and wildlife program money in the region. These programs fund a variety of activities including tribal fish hatcheries, fish screens at irrigation diversions, habitat improvement projects, watershed restoration, land acquisition, and various research studies.

Bonneville sets its power rates high enough to cover its internal costs, the costs of fish and wildlife programs, and to repay its debt, including its revolving Treasury debt and any other appropriated funds used to build and operate the power system.

BONNEVILLE HAS NUMEROUS FISH AND WILDLIFE RESPONSIBILITIES

In addition to its responsibility for providing transmission services and marketing the electric power generated by the dams in the Federal Columbia River Power System, Bonneville is obligated by the Northwest Power Act of 1980 to protect, mitigate, and enhance fish and wildlife populations affected by these hydroelectric projects. In addition to this mandate, significant declines in historical returns of salmon and steelhead to the Columbia River Basin have resulted in the listing of 12 populations as threatened or endangered under the Endangered Species Act. With these listings, Bonneville and other federal agencies became responsible for ensuring that operation of the Federal Columbia River Power System does not jeopardize the continued existence of these 12 populations. The table below identifies, and provides a brief explanation of, some of the laws defining Bonneville’s responsibilities.

Table 1: Legislation Defining Bonneville’s Responsibilities for Fish and Wildlife

Bonneville Project Act (1937)	Creates the Bonneville Power Administration and authorizes it to market power produced by the Bonneville Project and to construct transmission lines to transmit electric energy. Requires Bonneville to set its rates to recover the cost of producing and transmitting electric energy from the Federal Columbia River Power System, including the amortization of the capital investment. These rates must be based on the cost allocations among the project’s purposes that Congress authorized—typically power, navigation, flood control, and irrigation.
Endangered Species Act (1973)	Directs the National Marine Fisheries Service and the United States Fish and Wildlife Service to return endangered and threatened species to the point where they no longer need special protection measures by protecting threatened or endangered species and the ecosystems upon which they depend.
Transmission System Act (1974)	Designates Bonneville as the marketing agent of all electric power generated by federal plants constructed by the Army Corps of Engineers or the Bureau of Reclamation in the Pacific Northwest, except for power required for the operation of such projects and the power from Bureau of Reclamation’s Green Springs project. Authorizes Bonneville to operate and maintain the federal transmission system within the Pacific Northwest and to construct appropriate additions and improvements. Establishes the Bonneville Fund within the United States Treasury, a revolving fund that consists of all of Bonneville’s receipts and proceeds, and from which Bonneville’s administrator may make expenditures determined to be necessary or appropriate.
Pacific Northwest Electric Power Planning and Conservation Act (1980)	Authorizes the formation of the Pacific Northwest Electric Power and Conservation Planning Council (Council) and directs it to develop a program to protect, mitigate, and enhance the fish and wildlife of the Columbia River Basin. Requires Bonneville’s administrator to use Bonneville’s funding authorities to protect, mitigate, and enhance fish and wildlife affected by the development and operation of the Federal Columbia River Power System and to do so in a manner consistent with the Council’s program while ensuring the Pacific Northwest an adequate, efficient, economical, and reliable power supply. Limits Bonneville’s

	share of mitigation costs to those necessary to deal with adverse effects caused by the development and operation of the dams' electric power facilities only. Requires federal agencies responsible for managing, operating, or regulating hydroelectric facilities in the Columbia River Basin to provide equitable treatment for fish and wildlife with the other purposes for which these facilities are operated and managed. These agencies must, at every relevant stage of their decision-making process, also consider, to the fullest extent practicable, the Council's fish and wildlife program.
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Source: GAO review of legislation.

In addition to the laws summarized above, Bonneville must comply with other environmental laws and also has a trust responsibility with the 13 federally recognized tribes in the Columbia River Basin. In an April 29, 1994 Memorandum to the Heads of Executive Departments and Agencies, then President Clinton made trust responsibilities and tribal relations the responsibility of all federal departments. To fulfill this responsibility, Bonneville developed a formal tribal policy, which provides a framework for a government-to-government relationship with the 13 tribes. This framework includes a commitment to fulfill its obligations under the terms of treaties, as well as other applicable laws and regulations. Various treaties and court cases guarantee the rights of the tribes to fish at their usual and accustomed fishing locations and to take 50 percent of the annual harvestable surplus of salmon. The table below identifies, and provides an explanation of, some key environmental laws and treaties.

Table 2: Other Laws, Treaty Obligations, and Court Cases Affecting Bonneville's Responsibilities for Fish and Wildlife

Clean Water Act (1972)	Authorizes the Environmental Protection Agency (EPA) to establish water quality standards and to issue permits for the discharge of pollutants from a point source to navigable waters. Authorizes EPA to approve total maximum daily loads established by states and tribes. These standards are determined by the maximum amount of a pollutant that a water body can receive and still meet water quality standards for specified uses, including fish and wildlife.
Columbia River Treaty (1961)	Defines the relationship between the United States and Canada concerning the operation of Columbia River dams and reservoirs.
National Environmental Policy Act (1969)	Procedural act requiring federal agencies to examine the impacts of proposed federal actions that may significantly affect the environment.
Magnuson-Stevens Fishery Conservation and Management Act (1976)	Requires federal agencies, in consultation with the National Marine Fisheries Service (NMFS), to promote the protection of essential fish habitat. NMFS shall provide conservation recommendations for any federal or state activity that may adversely affect essential fish habitat.
Pacific Salmon Treaty (1985)	Treaty signed by the United States and Canada in 1985 governing the harvest of certain salmon stocks in the fisheries of the Northwest states (including Alaska)

	and Canada.
<i>U.S. v. Oregon, U.S. v. Washington</i> (1969 and 1974)	Court decisions affirming the right of certain Indian tribes to 50 percent of the harvestable surplus of salmon.
Treaties between individual Indian tribes and the United States	Establish federal agency responsibilities for trust assets, hatchery and harvest issues, and tribal water rights.

Source: GAO review of legislation, treaties, and court cases.

BONNEVILLE’S SPENDING AND OTHER EFFORTS TO PROTECT FISH AND WILDLIFE ARE CONSIDERABLE BUT EFFECTS ARE DIFFICULT TO ISOLATE

In total, Bonneville estimates it has spent over \$1.1 billion (in 2001 dollars) from 1997-2001 on fish and wildlife efforts. Of this total, Bonneville spent over \$460 million on direct programs and funding for fish and wildlife related activities of other agencies and entities. The bulk of Bonneville’s expenditures for fish and wildlife are spent on the 12 populations of salmon and steelhead currently listed as endangered or threatened under the Endangered Species Act.⁴ Bonneville’s direct spending on projects as well as their funding of other agencies and entities in support of fish and wildlife programs for 1997-2001 are shown in table 3 below.

⁴ GAO recently completed a review of these expenditures for 11 federal agencies—U.S. General Accounting Office, *Columbia Basin Salmon And Steelhead: Federal Agencies’ Recovery Responsibilities, Expenditures and Actions*, GAO-02-612 (Washington, D.C.: July 2002). This report dealt only with salmon and steelhead programs, but Bonneville staff told us that this represents the bulk of Bonneville’s support for fish and wildlife programs. Therefore, the data provided in this testimony are indicative, but not a complete accounting, of Bonneville’s recent financial commitments to fish and wildlife protection, mitigation, and enhancement.

Table 3: Bonneville's Expenditures and Funding Provided to Others (in thousands of 2001 dollars)

Group	1997	1998	1999	2000	2001	Total
Bonneville	\$5,533	\$4,913	\$5,608	\$4,507	\$5,444	\$26,005
Federal Agencies	\$12,740	\$9,082	\$9,150	\$9,675	\$16,543	\$57,247
States	\$16,249	\$22,137	\$21,286	\$17,873	\$20,011	\$103,361
Tribes	\$22,054	\$21,465	\$17,438	\$18,126	\$22,344	\$95,622
Power Council	\$375	\$686	\$1,784	\$686	\$353	\$3,883
Others	\$23,554	\$37,527	\$38,165	\$32,758	\$44,855	\$176,858
Total	\$80,505	\$95,810	\$93,429	\$83,625	\$109,550	\$462,976

Source: GAO presentation of data provided by Bonneville Power Administration.

In addition to the expenditures shown above, Bonneville (1) reimburses the Treasury for the hydroelectric share of Army Corps of Engineers, Bureau of Reclamation, and the Fish and Wildlife Service operation and maintenance and other non-capital expenditures for fish and wildlife, and (2) funds the hydroelectric share of capital investment costs of the Army Corps of Engineers and Bureau of Reclamation fish and wildlife projects. Such projects include fish bypass facilities at dams and fish hatcheries. Bonneville estimates that its operation and maintenance reimbursements between fiscal year 1997 and 2001 were \$215.1 million and its funding of capital investment for the same time period totaled \$453.9 million.

Bonneville also estimates that spilling water and augmenting flows to assist fish migration has led to over \$2.2 billion in forgone revenues and purchases of replacement power. Bonneville's estimates of these costs are included in the table below. GAO did not audit these figures.

Table 4: Bonneville’s Estimated Power Purchases and Forgone Revenues (in millions of 2001 dollars)

Cost Category	1997	1998	1999	2000	2001	Total
Purchase Power costs	\$0.0	\$5.7	\$49.7	\$66.1	\$1,389.0	\$1,510.5
Foregone Revenues	\$115.5	\$123.3	\$206.4	\$197.1	\$115.9	\$758.2
Total	\$115.5	\$129.0	\$256.1	\$263.2	\$1,504.9	\$2,268.7

Source: Bonneville Power Administration

There are some indications that Bonneville’s actions in conjunction with other agencies’ have increased fish survival.

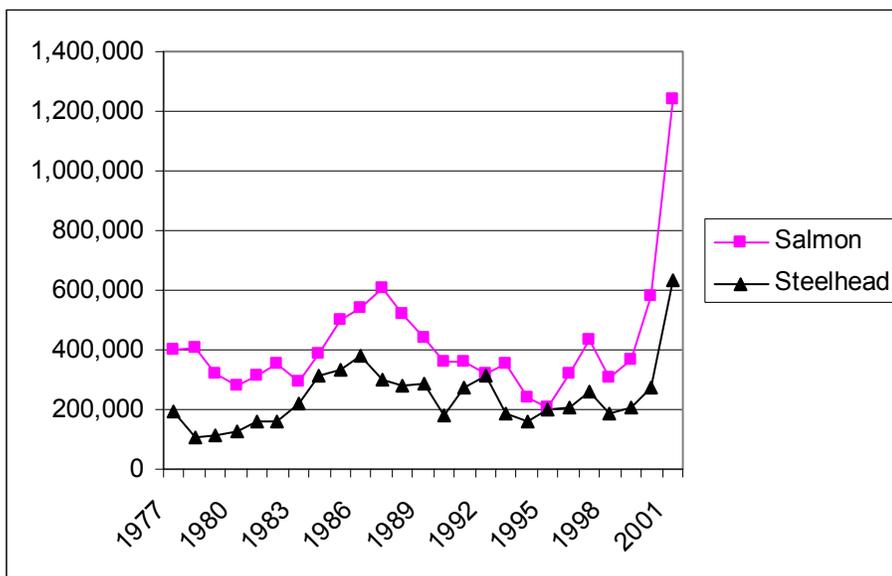
- Bonneville worked with the Army Corps of Engineers and Bureau of Reclamation to increase fish passage survival at dams, on average, by 5 percent or more at each dam.
- Predator control throughout the Federal Columbia River Power System and the estuary saved approximately 7 to 12 million juvenile salmon and steelhead per year, an approximate 5 to 10 percent increase in juvenile fish survival.
- In-river survival of juveniles through the Federal Columbia River Power System is now higher than ever measured.

While these results are promising, the available data are not sufficient to fully isolate the effects of overall fish and wildlife programs on fish populations generally, because of a number of confounding factors, including changing weather and ocean conditions and the length of time it takes for project benefits to materialize. For example, if ocean temperatures rise, adult fish may be unable to find and consume enough food to fortify themselves for spawning and, therefore, die before they can return. At other times, abnormally high or low water in the spawning streams, can mean that adults face dried up or washed out spawning beds. In low water years, flows may also be insufficient to transport juvenile salmon and steelhead to the ocean in time to make the transition to salt water, so they die in the streams. Given such variable conditions, federal efforts to enhance water flows or improve passage are difficult to assess. Moreover, project

benefits may take several years to materialize. For example, during the declared power emergency brought on by the drought of 2001, barges and trucks were used to transport juvenile fish past the dams. However, it will be 2 to 5 years before these juveniles return as adults and uncontrollable factors like ocean temperatures will also affect how many will eventually make it back. In the end, it will be difficult to isolate the success of the transportation program from the impacts of uncontrollable factors.

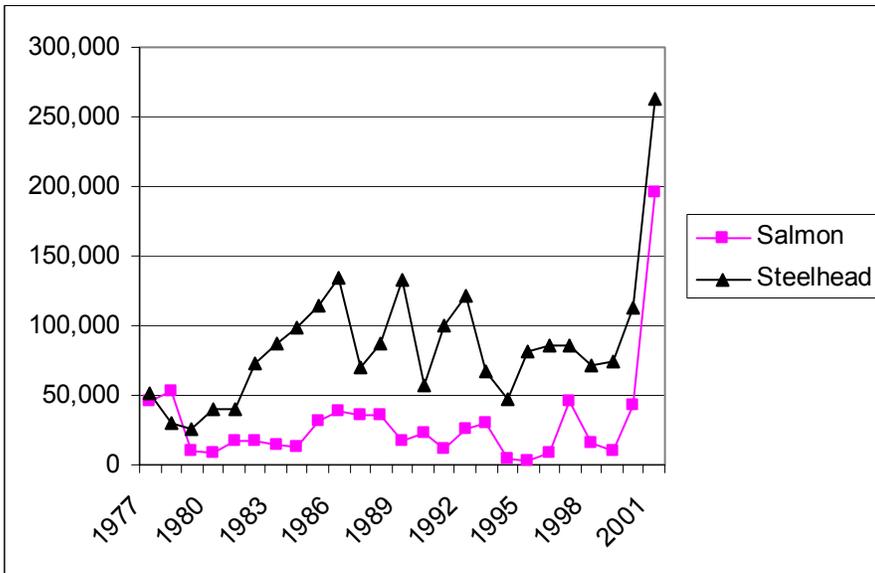
The figures below show the fluctuation in adult salmon and steelhead returns to the Columbia River Basin for the past 25 years as counted at two dams. Bonneville Dam is the first dam adult fish must pass on their way up the Columbia River, and Lower Granite Dam is the last dam they must pass on the Snake River before they can migrate into Idaho.

Figure 1: Returning salmon and steelhead at Bonneville Dam (1977-2001)



Source: GAO analysis of data from the Fish Passage Center.

Figure 2: Returning adult salmon and steelhead at Lower Granite Dam (1977-2001)



Source: GAO analysis of data from the Fish Passage Center.

As figures 1 and 2 indicate, fish populations can vary widely from year to year. While 2001 was the best year since 1977 for salmon and steelhead overall, there is no clear long-term trend over the entire period. Moreover, it is important to point out that while overall salmon numbers may be improving, the situation for individual species remains far less favorable. Further, all of the 12 populations of salmon and steelhead initially listed as either threatened or endangered remain so despite the efforts and spending described above.

BONNEVILLE IS FACING A FINANCIAL CRISIS

In recent years, Bonneville's financial position has deteriorated significantly. For example, Bonneville's cash reserves totaled \$811 million at the end of fiscal year 2000 but had fallen to \$188 million by the end of fiscal year 2002. In addition, for the fiscal year 2002-2006 rate period, Bonneville recently estimated that its costs will be about \$5.3 billion higher than in the previous five-year rate period. A large part (\$3.9 billion) of the estimated higher costs came from purchases of power to meet demand over and above what the Federal Columbia River Power System can produce. To meet this additional

demand, Bonneville took a number of steps, including purchasing power in long-term contracts at prices above current market prices and above the \$22/MWh rates it initially set for the fiscal year 2002-2006 rate period. In addition, Bonneville estimated that its revenues will be about \$1.4 billion less than were projected in 2001. A large part of the decreased revenue estimates are the result of lower than projected market prices. These lower than projected prices caused Bonneville to revise its expected surplus power revenues downward by over \$700 million. Drought conditions in 2001 and low water conditions in 2002 also contributed to Bonneville's reduction in estimated revenues. In early 2003, Bonneville announced that it estimated a greater than 50 percent chance of missing a payment on its outstanding debt to the Treasury this fiscal year.

In response to the financial crisis, Bonneville has increased its rates for power by over 40 percent over fiscal year 2001 levels and is considering further increases if necessary to increase the likelihood it will be able to make its Treasury payments. In addition, Bonneville plans to reduce costs or expenditures and hopes that favorable water and price conditions will enable it to increase revenues from power sales. Bonneville is also seeking to (1) refinance some of its debt, (2) renegotiate some long-term power contracts, and (3) reach agreement on the reduction and/or deferral of financial benefits to certain customers. Bonneville is also involved in a regional dialogue with its power customers, the Power Planning Council, and other stakeholders to try to avoid similar problems in the future.

RECENT ACTIONS BY BONNEVILLE MAY HAVE REDUCED TOTAL SPENDING ON FISH AND WILDLIFE

Bonneville has recently undertaken several actions that are viewed by members of the fish and wildlife community as reducing the amount of funding available to support fish and wildlife protection and recovery efforts. These actions include changes in approach to contract management and the planning and budgeting system that have resulted in some work completed in fiscal year 2002 being paid for with fiscal year 2003 funds.

Starting in fiscal year 2003, Bonneville eliminated the automatic carryover of funding for fish and wildlife programs that had previously been provided under contract management. Under the previous methods, if the funds were not spent in the year approved, they were generally carried over and were available to be spent in the following year. As a result, Bonneville officials stated that they did not have current and reliable information on the cost of work performed each year. With the switch to the new planning and budgeting system, Bonneville has requested that contractors inform Bonneville by a certain date in the new fiscal year how much they are owed for work actually performed in the last fiscal year. Bonneville uses the information to establish an account that sets aside monies from that fiscal year to pay bills as they come in during the next year. If contractors do not provide Bonneville with this information then bills that come in for work done in the previous fiscal year must be paid for with monies from the next fiscal year.

Contractors and others told us that this change was made with little advance notice or training and without a clear understanding on their part of its ramifications on fiscal year 2003 funding. As a result, funding for fiscal 2003 planned projects is being reduced by the amount needed to pay for work completed in fiscal year 2002, which they failed to notify Bonneville was completed. In addition, they note that if a project is approved but no work is done on it in a given fiscal year it now runs the risk of having to go back through the formal funding approval process, potentially causing delays.

Stakeholders told us of several concerns they have about Bonneville's funding of fish and wildlife programs:

- According to Power Planning Council officials:
 - Bonneville's budgeting change caused a reduction in fish and wildlife funding. In a February 2003 letter to the Bonneville Administrator, Power Planning Council staff stated that over \$40 million in fish and wildlife obligations that had been carried over from the 1997 - 2001 rate period were no longer available. The Power Planning Council says that its fish

and wildlife program has had to absorb the \$40 million in previous obligations in its 2003 budget.

- In December 2001, Bonneville told the Power Planning Council that it estimated an annual average of \$150 million for the 2002 - 2006 rate period to fund the Power Planning Council's fish and wildlife program and actions required by the biological opinion for the Federal Columbia River Power System. Bonneville reduced this figure to \$139 million. Furthermore, in March 2003 Bonneville notified the Power Planning Council that this figure may be reduced further and asked the Power Planning Council if further reductions would be feasible.
- Although Bonneville had agreed to provide \$36 million in capital funding to be used to purchase land or easements to protect fish and wildlife, Bonneville notified the Power Planning Council that all land or easement purchases had been placed on hold due to Bonneville's financial condition. Bonneville further indicated that capitalizing land or easement purchases may not be appropriate, a contention the Power Planning Council disputes. While the Power Planning Council has agreed to Bonneville's decision to place fiscal year 2003 land purchases on hold, it has also notified Bonneville that this issue must be resolved before the Power Planning Council can evaluate future program requirements.
- According to representatives of the Columbia River Intertribal Fish Commission:
 - Bonneville cancelled funding for the acquisition of approximately 2,500 acres along Squaw Creek in Oregon. Habitat enhancement in the Squaw Creek area is administered by the Confederated Tribes of the Umatilla Indian Reservation.
 - The Columbia Basin Fish and Wildlife Authority, is slated to lose half of its funding. The Columbia Basin Fish and Wildlife Authority coordinates the work of the 13 tribes and 7 fish and wildlife agencies in the Columbia River Basin, administers aspects of the provincial review process, coordinates project reviews and research, and acts as a funding vehicle for projects involving multiple agencies. This organization is important to the tribal

community because it assists tribes in coordinating with each other as well as with outside fish and wildlife agencies.

- According to representatives of the Yakama tribe:
 - The tribe lost between \$6 and \$8 million in fish and wildlife funding due to Bonneville's change in the new planning and budgeting system.
 - A deal the tribe had reached to get conservation easements, remove dams impassable to fish, and upgrade irrigation systems to reopen several steelhead spawning streams fell through when the funds allocated for these projects became unavailable after the budgeting change.

Bonneville described the changes in their budgeting and accounting of fish and wildlife program funds as follows:

- Overall, Bonneville's yearly direct program expenditures have increased since 1996 from \$68.5 million in expense spending to \$138 million in 2002. Those direct program expenditures – now totaling \$139 million a year through FY 2006 – have been the principal source of funding support for tribal fish and wildlife programs and the implementation of projects that address Bonneville's mitigation obligations and recovery objectives. In the Fall of 2002, Bonneville changed the planning and budgeting process that is used with regional entities for these fish and wildlife expenditures from an obligations to an accrual-based planning and budgeting process. As required under Generally Accepted Accounting Principles (GAAP), Bonneville records expenditures on an accrual basis. In an effort to more closely align the budgeting process with accrual based accounting, Bonneville moved from an agency obligation budgeting method to agency budgeting based on accruals in the mid-1990s. However, due to processes documented in the original Fish Funding Memorandum of Agreement, the regional planning and budget process for fish and wildlife funding remained on an obligations basis. Due to Bonneville's dire financial circumstances, the planning and budgeting process was changed to more

closely correlate with accrual accounting, and the agency's planning method.

- Due to difficult financial circumstances, Bonneville accelerated a change from an obligations to an accrual based planning and budgeting process for the fish and wildlife program. This approach to planning correlates more closely with the agency's planning method and provides greater accuracy in fiscal year expenditure forecasts. In addition, Bonneville has initiated changes in contract management to provide Bonneville managers with accurate and current information to facilitate administration of Bonneville's fish and wildlife program on an accrual basis.
- In December 2002, as Bonneville's financial concerns deepened, the Administrator asked the Power Planning Council to take appropriate steps to assure that spending for the fish and wildlife program did not exceed the budgeted level of \$139 million in expense accruals for fiscal year 2003.
- Bonneville acknowledges that these changes affected the planned expenditures for fiscal year 2003. However, the 2003 funding level of \$139 million is consistent with the funding commitment made in a December 2001 letter to the Power Planning Council and is a 40 percent increase in program support from the previous rate period. In that letter, Bonneville supported a planning assumption of \$150 million in expense for fish and wildlife; this was expected to result in an actual expense accrual of \$139 million.
- While Bonneville has spent well over \$100 million on wildlife habitat since 1989, only one agreement has been capitalized. The Montana Trust resolved and indemnified Bonneville for all losses resulting from the construction of Libby and Hungry Horse dams and was funded with a one-time commitment of \$12 million.
- Bonneville instituted a temporary hold on land acquisitions until the Power Planning Council could make recommendations on how to prioritize 2003 expenditures. Upon review of the forecasted expenditures

for 2003, the Power Planning Council recommended the deferral of land acquisitions for the remainder of fiscal year 2003 to allow consideration of a change to Bonneville's capitalization policy for fiscal year 2004. This allowed other projects to move forward within the \$139 million budget. Bonneville is currently working with the Power Planning Council and constituents to develop a method for capitalizing land acquisitions that is consistent with GAAP accounting standards and Bonneville's limited borrowing authority.

BONNEVILLE'S CHALLENGES STEM FROM ITS DUAL AND CONFLICTING ROLES AND RESPONSIBILITIES

Bonneville's dual roles—as supplier of economical and reliable power and as protector of fish and wildlife—are inherently in conflict. Bonneville's stakeholders include both consumers of electricity and proponents of fish and wildlife protection, and both groups apply pressure on Bonneville to deliver more of what they want. However, providing more support for fish and wildlife comes at the cost of less electricity and higher rates. Similarly, providing more electricity can put greater pressure on fish and wildlife, either through more intensive use of generating facilities at the expense of spilling water, or through reduced revenues available for funding fish and wildlife programs as has occurred during the current crisis.

Further, Bonneville operates in a changing environment with regard to demand for its electricity and with regard to the treatment of fish and wildlife required by law and treaty agreements. For example, demand for electricity has generally grown throughout Bonneville's existence and it has responded up until now by increasing its generating capacity or buying electricity from other sources to meet the needs of its electricity customers. As Bonneville has continued to provide electricity beyond the capacity of federal hydroelectric facilities, it has encountered higher costs. In addition, over the past two decades, Bonneville's spending and actions in support of fish and wildlife have grown considerably with the enactment of various environmental laws and with

increased regulations put in place to protect the environment. Most recently, a ruling in federal court has determined as inadequate the biological opinion developed by the National Marine Fisheries Service (now NOAA Fisheries) to direct the protection of endangered fish species in the Columbia River Basin. The judge has remanded the biological opinion to NOAA Fisheries and suggested that greater certainty will be required for specific mitigation measures before NOAA Fisheries can rely upon them for protecting listed endangered species. The consequences of this ruling on river and dam operations is uncertain as is any subsequent impact on the amount and timing of power Bonneville has to sell and on fish and wildlife.

In closing Mr. Chairman, while the future is uncertain, one thing is very clear—Bonneville and its numerous stakeholders are faced with some potentially painful decisions in the coming years. The outcomes of these decisions will affect the health and viability of fish and wildlife populations and the way of life of Northwest residents who benefit from electric power. Given the competing priorities that involve making trade-offs, we continue to support public oversight of the decisions being made and will continue to pursue our ongoing work relating to your request that we study Bonneville's obligations to support fish and wildlife programs.

Mr. Chairman, that concludes our prepared statement. We would be happy to answer any questions that you or Members of the Committee may have.

For further information, please contact Jim Wells at (202) 512-3841. Individuals making key contributions to this testimony include, Jill Berman, Jonathan Dent, Samantha Gross, Cynthia Norris, Frank Rusco, and Barbara Timmerman.

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