January 30, 2009

Record of Decision

Defining a New, Long-Term Relationship Between BPA and
The Bonneville Environmental Foundation

Issue

Should BPA define and implement a new, mutually beneficial long-term relationship to: (1) complement BPA's programs in support of BPA's mission through the actions of Bonneville Environmental Foundation, (2) create a mechanism for BPA to support the Foundation's pursuit of regional renewable and environmental goals that complement BPA's program, and (3) continue association of BPA's name with such an enterprise?

1. BPA Objectives

1. Support an independent entity that can effectively create and use new markets to advance and support environmentally beneficial energy resources in the Pacific Northwest;
2. Increase the potential supply of cost-effective regional renewable resources available to BPA and its customers for acquisition should they choose to do so;
3. Increase the potential supply of cost-effective, conservation, renewable, and demand response resources consistent with the Northwest Power and Conservation Council's Power Plan or as otherwise provided by the Northwest Power Act;
4. Promote renewable energy and related technological innovation (including demonstration projects) in the Pacific Northwest Region's electric power industry;
5. Support Regional watershed improvements that further BPA's Regional efforts to maintain, restore, and enhance fish and wildlife, and associated habitat; and
6. Complement BPA's resource development objectives and fish and wildlife goals by educating members of the general public on the benefits of renewable resources, removing greenhouse gases from the atmosphere, and improving Northwest fish and wildlife resources and habitat.

2. Strategic Business Objectives and Key Agency Risks

Connection of proposal to BPA's Strategic Business Objectives

By BPA's past actions to create and support the Bonneville Environmental Foundation, BPA enabled the creation of a burgeoning Green Tags market, enhancing the value of renewable energy through certification and sales of environmental benefits outside of the electricity market; this directly supported BPA's strategic business objectives of the period, and continues to support BPA's current business objectives.

By promoting the development of an increased potential supply of reliable power through the development of additional regional cost-effective renewable resources that potentially could be acquired by BPA or its customers, the proposal furthers the following BPA strategic business objectives: S1 (Policy and Regional Actions); S3 (FCRPS Expansion); S6 (Tier 2 Power); S8 (Energy Efficiency, Renewables & Non-Wires; and S9 (Greenhouse Gas).

Assisting the development of additional renewable resource technologies furthers I6 (Risk Management) by reducing BPA and the region's resource portfolio risk by promoting further diversification of Regional resources.

Funding Bonneville Environmental Foundation's market transformation and technological innovation efforts to demonstrate new renewable and other technologies furthers I5 (Technology Innovation), particularly where the Bonneville Environmental Foundation (and its wholly owned for-profit subsidiary, Bonneville Environmental Foundation Renewables, Inc.) develops new market initiatives as it did in developing a green tag program, solar energy education program for schools, and providing funding for biomass and other demonstration projects, thereby assisting BPA and its customers in increasing the potential availability of renewable resource technologies.

Finally, Bonneville Environmental Foundation's fish and wildlife and watershed improvement efforts support S7 (Environment, Fish &Wildlife) by complementing BPA's fish and wildlife, and associated watershed improvement programs.

Relationship to Top Tier Agency Risks

Of BPA's top tier agency risks,[1] promoting the development of additional intermittent renewable resources, such as wind projects, have the potential to exacerbate ineffective integration of wind projects and increase stress on the federal hydro system until a regional solution to this issue is developed.

Conversely, adding renewable energy resources to the region's energy supply, particularly resources that include capacity, such as demand response, solar energy and biomass, increases resource diversity, thereby reducing the risk of disruption of critical functions from over-generation from renewable resources during periods of low load or from a shortage of flexible capacity to integrate intermittent resources into the Northwest power system.

Adding renewable energy resources to the region's supply helps meet anticipated greenhouse gas emission reduction regulations BPA expects will be adopted in the near future, thereby helping

[1] BPA's Top Tier Agency Risks are: (1) Workforce Skill Gaps (Strategic); (2) Stakeholder Environment (Strategic); (3) Ineffective Integration of Generation into the Regional Infrastructure (Strategic); (4) Extended Loss of Columbia Generating Station (Operational); (5) Federal Hydro Generation Supply (Operational); (6) Cascading Outage (Operational); (7) Fraudulent or Unethical Behaviors (Operational); (8) Inadequate Business Processes (Operational): (9) Environmental Regulatory Requirements (Legal/Regulatory); and (10) Disruption of Critical Functions (Hazard).

address BPA's and the Region's anticipated environmental regulatory requirements. These projects may also qualify for carbon offsets once a national emission reduction program gets defined, a benefit to BPA and its customers by reducing the region's carbon footprint.

By relying on non-federal FTE and expertise to complement BPA's programs in support of BPA's mission, Bonneville Environmental Foundation's activities modestly relieve BPA's workforce skill gaps.

Legal Authority

Bonneville is a federal power marketing agency authorized and charged by Congress, among other things: (A) to make maximum practicable use of the Administrator's authority to encourage the development of renewable resources (including direct application renewables), and other resources for service to its customers' regional loads including providing financial assistance for the development and implementation of such resources; (B) to promote the development of experimental, developmental, demonstration, or pilot projects with a potential for providing cost-effective service to the region; and (C) to develop such resources with due consideration for environmental quality, including the protection, mitigation, and enhancement of fish and wildlife habitat. Bonneville has authority to contract, in such manner as the Administrator may deem necessary, to facilitate the execution of Bonneville's substantive responsibilities.

3. Decision Maker

The decision-maker is the BPA Administrator.

Key stakeholders include Bonneville Environmental Foundation; Bonneville Environmental Foundation's founding partners (NRDC, NW Energy Coalition, Renewables Northwest); other environmental groups; and the region's fish and wildlife, energy efficiency, demand response, climate change, watershed management, and renewable energy interest groups; BPA's power customers, particularly those facing Renewable Resource Portfolio Standards; and Northwest States.

4. Context

A. History

The Bonneville Environmental Foundation is an independent[2] 501(c)(3) charitable Oregon corporation BPA helped create in 1998 to support and complement BPA's fish and wildlife and renewable energy programs in support of BPA's mission in the Pacific Northwest. As noted in

[2] Bonneville Environmental Foundation has a self-perpetuating, independent board of directors. BPA may designate an employee to serve as liaison to the board, but has no formal voting power or fiduciary duty to the Bonneville Environmental Foundation. Currently, BPA's Deputy Administrator sits on the Foundation's board as an ex-officio member.

Bonneville Environmental Foundation's bylaws, these projects would "complement, not supplant" BPA programs.

BPA's initial involvement in the Bonneville Environmental Foundation to create an active alliance with environmental organizations to advance BPA's sustainable energy, and fish and wildlife goals in the Pacific Northwest using market tools.

The initial funding mechanism centered on sales of certified "environmentally preferred power" (a subset of renewable energy) at a premium to then-prevailing market prices. This would be accomplished by having certain projects "endorsed" as "green" by a group of environmental organizations.[3] Power from these projects would be sold at a premium in the market as environmentally preferred power. The original terms were that the environmental premium would be split between BPA (40%) and a new non-profit entity–the Bonneville Environmental Foundation–established to receive and make use of a significant portion of the environmental premium (60%) created through the certification process. In this manner, additional environmental amenities, funded through market mechanisms in a way that enhanced BPA's revenues, would be developed to complement BPA's program in support of BPA's mission. Over time BPA reduced the Foundation's share of the environmental premium from 60% to the current level of 33.3%. BPA currently dedicates the remaining 66.7% of the environmental premium to support BPA's Technology Innovation program.

Initial projects endorsed as "green" by environmental organizations included Packwood Hydroelectric Project, Idaho Falls Hydroelectric Project, and the Wyoming Wind Project. Emerald PUD agreed to purchase the first 3 MW of environmentally preferred power. The current environmentally preferred power arrangements expire in 2011. Funds provided by BPA to the Foundation currently run about $1.1 million per year, although the amount varies somewhat from year to year depending on sales of green tags and the output of these projects.

With BPA's support, the Foundation has succeeded in developing a well-deserved reputation for innovation in transforming markets. In creating one of the nation's premier green tag programs Bonneville Environmental Foundation pioneered the national retail sales of Renewable Energy Credits (RECs)/Green Tags, and has made noteworthy green tag sales such as to the 2006 Oscar™ awards. This program has generated substantial funding for the Foundation over and above what it receives from BPA, enabling it to increase benefits realized by BPA, its customers and other NW stakeholders. BPA sells Renewable Energy Credits (aka "green tags") from other renewable resources in the "green tag" market created by the Foundation.

Similarly, the Foundation used BPA funds to develop a widely subscribed solar education schools program that designs, engineers, funds and installs small solar systems on schools across the region and nationwide. The program supplies renewable energy curricula and teacher training materials, a product line used by many of BPA's utility customers.

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[3] These were: NW Energy Coalition, Natural Resources Defense Council, and Renewable Northwest Project.

The Foundation helped develop the Last Mile Electric Cooperative, a cooperative focused on developing renewable resources, and became a partner and facilitator in what is now one of the largest public power wind projects –White Creek–in the country through the Foundation's wholly owned subsidiary, Bonneville Environmental Foundation Renewables, Inc.[4] Its innovative watershed restoration approaches have generated partnerships with tribal governments and watershed councils throughout the Columbia Basin, and influenced substantial changes in restoration strategies by policy makers in key watersheds.

The Foundation has accomplished these objectives while maintaining fiscally responsible policies. It has made conservative financial commitments well within its ability to meet them. The Foundation's administrative costs have been in the range of 10% of revenues over the last few years. It has slowly built a modest financial reserve. It will receive about $250,000 per year from the White Creek investment for the next twenty years. It has found ways to generate additional financial support using innovative market techniques such that BPA's funds have been leveraged at least three-fold compared to money coming from other sources.

These activities have benefited BPA and its customers by promoting the development of renewable resources in creative ways that BPA could not have done on its own.

B. Need to Change Financial Relationship

Recently, BPA agreed with its customers not to sell any additional environmentally preferred power in the market, in part because many of BPA's customers are subject to recently enacted State renewable portfolio standards (RPSs). Instead, BPA has agreed to pass RECs associated with power purchased under Tier 1 and Tier 2 rates to the purchasers of that power. Thus, the original funding mechanism envisioned for the Foundation is not available past 2011 under BPA's current policy not to sell environmentally preferred power in the market.

The Bonneville Environmental Foundation currently operates with an annual budget of $7 million, of which BPA's contribution through environmentally preferred power revenue sharing in 2008 is about $1.1 million. The Foundation uses BPA's funds to complement BPA's program in support of BPA's mission through (a) protecting the environment with a focus on climate

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[4]Bonneville Environmental Foundation Renewables, Inc. is an Oregon "for profit" corporation created by the Bonneville Environmental Foundation to facilitate development of renewable projects by publicly-owned entities. Bonneville Environmental Foundation Renewables, Inc. expects to enter into arrangements with publicly-owned entities (e.g., governmental entities, schools, tribes) and other non-profits to serve as project developer and a conduit for the sale of production tax credits from publicly owned renewable projects, thereby allowing publicly-owned entities to reduce the cost of developing renewable projects by capturing production tax credits for the benefit of the project. Current photovoltaic projects under consideration include each Portland Community College, Portland Water Bureau airport pumping station, and Reike Elementary School. Bonneville Environmental Foundation Renewables, Inc. is also working to develop a dairy digester biomass project at Threemile Canyon Farms in conjunction with NW Natural Gas Company. Bonneville Environmental Foundation Renewables, Inc. and NW Natural Gas Company will each own 50% of the project.

change, (b) developing clean renewable sources of energy, (c) promoting market transformation and technological innovation of renewable resources, and (d) restoring and conserving watersheds, and native fish and wildlife species.

Re-establishing BPA's funding would aid the Foundation developing the following additional benefits for BPA and the region:

- Substantially increase the revenue and environmental benefit of its green tags program;
- Expand the education of students in solar and renewable energy topics and help public utilities install solar demonstration projects on schools and other public buildings;
- Leverage the Foundation's unique "Model Watershed" concept to conserve and restore additional Columbia Basin Watersheds;
- Develop a market-based mechanism to put water back into streams and simultaneously generate revenue to invest in additional watershed restoration and conservation to facilitate improved fish and wildlife habitat, particularly those in critical Bi-Op areas;
- Test and verify new renewable technologies for the benefit of the public, such as a new version of a dairy biogas digester;
- Build on the Foundation's early pilot projects to use tax incentives to help government, tribes and non-profits build and finance additional renewable projects;
- Develop, fund, and test cutting edge pilot watershed restoration strategies and disseminate effective approaches that will allow BPA and other agencies to adopt increasingly cost-effective watershed restoration and species conservation programs;
- Develop market-based approaches to renewable energy, particularly in a carbon constrained world, and watershed issues; and
- Demonstrate additional market transforming projects for renewables, demand response, and potentially other areas in need of technological innovation.

5. Decision Evaluation Criteria—Principles for a New BPA-Bonneville Environmental Foundation Relationship

1. Cost-effectively complement BPA's objectives described in Section 1 of this Record of Decision;
2. Increase the Foundation's effectiveness in complementing BPA's programs by creating a reasonably stable, long-term funding mechanism while assuring ongoing accountability;
3. Create a funding mechanism to complement BPA's programs that is sustainable over a period of twenty years, if possible;
4. Reduce the cost of administering the BPA/Foundation relationship while assuring that BPA obtains expected value from its expenditures;
5. Maintain the current (or higher) level of funding in real terms over the term of the new funding arrangement;
6. Ensure that BPA funds are used by the Foundation to support activities that complement BPA's programs in a manner acceptable to BPA;
7. Refrain from micromanaging the Foundation's use of BPA funding, allowing the Foundation to act quickly, creatively and with a variety of partners;
8. Maintain consistency with BPA's current policy of preserving the green attributes of the FCRPS for its customers;

9. Leverage the Foundation's core competencies to BPA's advantage— entrepreneurial spirit, innovative market approach, inherent flexibility, rapid testing of ideas; broad environmental support; and reputation as a fiscally conservative organization—to complement BPA's programs in support of its mission; and
10. Promote technological innovation (including demonstration projects) in the areas of renewable resources, demand response, watershed improvement, energy efficiency, climate change, and potentially other areas of interest to BPA.

6. Risks of the Status Quo

Given BPA's decision not to market environmentally preferred power, the current funding approach does not provide a sustainable funding mechanism beyond 2011. Unless replaced with a new funding mechanism, this loss of financial relationship would significantly impair BPA's continued ability to leverage the Foundation's achievements that support and complement BPA's programs.

Loss of a continuing, steady financial relationship with the Foundation would diminish BPA's credibility with and support from the environmental stakeholder community. This includes the risk of no longer benefiting from the Foundation's culture of innovation and flexibility. Ultimately this would result in reduced regional supply of renewable resources, fewer restored regional watersheds, and fewer greenhouse gas reduction opportunities.

7. Decision Alternatives and Evaluation

Option A. Status Quo

Pros

Maintaining the status quo works only through September 2011, when the current funding mechanism expires.

This approach may be viable if BPA's objective were to decide not to support Bonneville Environmental Foundation beyond September 2011.

Cons

The current approach does not work if BPA's objective is to support the Foundation beyond September 2011 because the market mechanism of creating value through marketing "environmentally preferred power" will not exist, absent a change in BPA policy with respect to green power.

Option B. Terminate BPA's involvement with the Foundation.

Pros

Reduces BPA costs

Reduces BPA FTE dedicated to Foundation activities

Cons

The region would not receive the benefit of the Foundation's innovative and creative thinking

Option C. BPA would make an annual "base payment" to the Foundation of $1.3 million per year (escalating at the rate of inflation over the term of a twenty-year agreement)

These funds would be used by the Foundation within the region to complement BPA's programs in a manner consistent with BPA's authorities—as described in an annual plan adopted by the Foundation. These would include, but would not necessarily be limited to:

1. Investing in cost-effective conservation, renewable resources, and demand resources;
2. Assisting in meeting regional GHG targets;
3. Funding market transformation;
4. Funding fish & wildlife measures, including watershed improvement activities; and
5. Investigating commercially viable concepts to generate revenue.

Control over funding decisions would be exercised by the independent board, with input from BPA as an "ex officio" member of the board, but without BPA control or veto power.

The Foundation would prepare an annual report for BPA each year outlining its accomplishments for the past year in complementing BPA's programs.

BPA would have the right to terminate the agreement for cause on two years notice if the Foundation does not comply with the terms of the agreement in complementing BPA's program in support of BPA's mission after failing to cure deficiencies. The Foundation would have one year from the date BPA notifies the Foundation that it is not in compliance with the agreement to cure any deficiencies in its activities.

Pros

This approach simplifies the relationship between BPA and the Foundation. It has the advantage of creating a stable long-term funding mechanism with a guaranteed annual minimum payment by BPA. Stable, long-term funding allows BPA to capture the benefit of innovative thinking by a small organization that can act quickly and decisively without being encumbered by process and procedures that make it difficult for BPA to act in the same space.

Funding the Foundation provides BPA with the potential to help the region achieve its renewable and greenhouse gas objectives by engaging in market transformation efforts such as funding projects to demonstrate the feasibility of new renewables technologies and supporting climate change initiatives. The Foundation also provides BPA with the potential to help it achieve its fish and wildlife objectives, in particular through its watershed improvement efforts.

Cons

Not all of BPA's customers support the Foundation; the Foundation will need to demonstrate significant achievements year after year to demonstrate to BPA's customers how Foundation expenditures benefit them.

Given the size of the regions' renewable energy needs, the contributions by the Foundation, absent a significant increase in funding, are likely to remain modest by regional measures.

There is a risk that BPA provides funding that is not used effectively by the Foundation to complement BPA's programs. This risk is largely mitigated by providing in the funding agreement that BPA have an opportunity to review and comment on the Foundation's annual budget. This approach is an effort to reasonably ensure that BPA gets expected value for its expenditure without incurring excessive administrative costs.

Risk Assessment

BPA may give notice that the Foundation is not using BPA funds properly, and ultimately may terminate the agreement on one year's notice for cause if it gives notice of non-compliance with the funding agreement and Bonneville Environmental Foundation fails to cure non-compliance within one year.

This proposal would not entail significant financial risks for BPA. The base payments would increase at the rate of inflation from $1.3 million beginning in April 2009. Thus, notwithstanding the long-term nature of the agreement, because BPA may terminate the agreement for any reason on five years notice BPA's maximum financial exposure under the agreement is about $6.5 million (2008 dollars) over any five year period. BPA's exposure is about $2.6 million (2008 dollars) over any two year period if the Foundation does not perform according to the agreement and fails to cure deficiencies within one year after receiving notice of non-compliance from BPA.

Option D. BPA would make: (1) an annual fixed payment of $1.3 million in 2009 (escalating at the rate of inflation over the term of a twenty-year agreement) plus (2) another payment up to 100% of the annual fixed payment entirely within BPA's discretion to fund additional activities BPA wishes the Foundation to pursue.

Whether to make a discretionary payment would be entirely within BPA's discretion. These discretionary payments would be reduced or perhaps suspended when BPA is experiencing financial stress.

These funds would be used by the Foundation in the same manner as described in Option C. The other terms and conditions described in Option C would apply to this option.

Pros

This approach has the advantages described for Option C.

Adding a discretionary fee to the proposal would allow BPA to temporarily increase funding from year to year to support new Foundation programs and initiatives that BPA deems appropriate for the Foundation to pursue.

Cons
This proposal has the cons and risks as described for Option C.

Given the current national financial crisis, any increase in funding, even discretionary funding, may create concerns among BPA's customers, particularly if such increases are seen as creating pressure to increase rates.

Option E. BPA would make an annual fixed payment of $1.3 million in April 2009 that would increase by the rate of inflation over the twenty year life of the agreement. BPA would have the discretion to permanently increase this "base payment" by up to 33% at any time, which increased payment would continue for the remaining life of the agreement and escalate at the rate of inflation.

The predicate for this alternative would be to allow BPA over time to permanently increase funding at any time going forward to a level comparable to that which would have resulted from the original 60-40 split agreed upon in 1998, which would have generated about $2.1 million for the Foundation in 2008, instead of the approximately $1.1 million the Foundation actually received, or to a higher level if BPA is satisfied with the Foundation's performance, wishes to permanently support a new Foundation program, or otherwise expand its activities to complement BPA's mission.

All other agreement conditions would remain the same.

Pros
This proposal has the same advantages as Option C,

In addition, it has the advantage of allowing BPA to permanently increase the base payment level if the Foundation performs well. This may be an important mechanism to "ramp-up" Foundation activities at a time when the region is likely to experience rapid growth in demand for cost-effective conservation, renewables, demand response resources, technological innovation, and watershed improvements.

Cons
This option has the same cons and risks as Option D, although the concerns associated with a permanent increase in Foundation funding would require BPA to prepare a compelling case that the Foundation is performing well in adding value to the region by complementing BPA's programs.

This approach would not entail significant financial risk. However, any permanent increase in base payments would correspondingly increase BPA's financial exposure given BPA's right to terminate the agreement on five years notice for any reason, and two

years notice if the Foundation fails to comply with the terms of the agreement and fails to cure any deficiency with one year.

Option F. BPA would make (1) an annual fixed payment plus (2) an annual "success fee" tied to Bonneville Environmental Foundation's performance against annual objectives to be adopted by BPA.

BPA would make two annual payments to the Bonneville Environmental Foundation:
1. An annual "base payment" of $1.3 million per year beginning in April 2009 (escalating at the rate of inflation over the term of a twenty-year agreement.)
2. An additional "success fee" up to an additional $1 million if certain objectives are achieved. BPA would adopt objectives to measure Bonneville Environmental Foundation success at the beginning of each BPA fiscal year.

All of the other agreement terms would remain the same.

Pros
This Option has the same advantages as Option C.

This approach has the advantage of creating a stable long-term funding mechanism with a guaranteed annual minimum payment by BPA coupled with a "success fee" tied to Bonneville Environmental Foundation performance against objectives adopted by BPA at the beginning of each year. This creates an incentive for the Foundation to perform against objectives set by BPA at the beginning of each year.

This proposal would not entail significant financial risks for BPA. The base payments would increase at the rate of inflation from $1.3 million beginning in 2009. A "bonus payment" would be paid for achieving targets set by BPA of up to an additional $1 million (escalating at the rate of inflation) beginning in 2012 if Bonneville Environmental Foundation makes certain predefined exceptional contributions to BPA objectives. BPA may terminate the agreement for any reason on five years notice. Thus, BPA's maximum financial exposure under the agreement at any given time under this approach is about $2.3 million per year (2008 dollars) for five years, a total of $11.5 million.

Cons
This Option has the same cons and risks as Option D.

However, this approach also increases the amount of BPA and Foundation FTE that would be dedicated to establishing, monitoring, assessing, and awarding the "success fee" each year. It would also increase the degree to which the Foundation would become "BPA centric" to delivery on annual targets, rather than focusing on innovative thinking "outside the box" to complement BPA programs.

Option G. Retain Bonneville Environmental Foundation as a BPA contractor to provide services to BPA

Find additional roles for the Foundation to play, such as serving as a "coalition of regional coalitions" focused on energy efficiency, renewables, or carbon credits for which BPA and potentially others would pay to support.

Note: This alternative could be used in conjunction with other options to supplement a long-term funding mechanism. For example, Technology Innovation may retain the Foundation to manage an R&D project for BPA for which Bonneville Environmental Foundation would be paid for its services in this regard. The proposed agreement would allow for this possibility.

Pros

Creates an easily defendable vendor relationship between BPA and the Foundation.

Maintains a high level of BPA control over Foundation activities.

Cons

Limits the Foundation's effectiveness as an independent, innovative entity with respect to the scope of the agreement.

May not provide stable, long-term funding.

Option H. Create an endowment fund

This could be done by BPA's "prefunding" its contribution to the Foundation in two or three large, lump sum payments over two to three years into an endowment fund, perhaps with matching funds from others. The Foundation would be allowed to use the income from the endowment fund to pay for current activities, but would not be allowed to tap into the principle except perhaps under extreme conditions.

Alternatively, funding an endowment fund might be accomplished thru a third party financing arrangement, rather than a lump sum payment from BPA/others, where a lender funds the endowment in one lump sum, and BPA makes debt service payments over time to the lender. Alternatively, a portion of BPA's annual payments could be dedicated to building the endowment fund slowly over time.

Pros

This approach has the advantage of creating a long-term funding mechanism.

If the fund were large enough, BPA's annual contributions needed to sustain current level of activities would be significantly less.

Cons

The disadvantage with this approach is that a large endowment fund may be needed to generate sufficient income to cover current activities, much less allow for an increase over time.

Large, lump sum payments may raise concerns among ratepayers. A financing mechanism might be defined to address this concern, but third party financing arrangements can be complicated and relatively expensive to arrange, particularly given the modest size from a financing perspective of any such endowment fund loan. Further, this mechanism would consume BPA capacity to borrow funds and involve payment of interest over the life of any funding mechanism.

8. Recommendation

Staff recommends BPA adopt a combination of Option D and E.

Option D provides for a base payment of $1.3 million (escalating at the rate of inflation over the life of a twenty year agreement) to begin in April 2009. Providing a base funding level of $1.3 million (escalating at the rate of inflation over the life of a twenty year agreement) captures the benefit of continuing BPA's relationship with the Foundation, draws an appropriate balance between BPA's desire to gain support from environmental and renewable stakeholders by providing a funding mechanism for independent decision-making in these program areas. This approach reduces the amount of BPA staff time and effort needed to monitor and assess the Foundation's performance while allowing BPA the ability to intervene and ultimately terminate the agreement if the Foundation does not perform according to the agreement.

Option D allows BPA to temporarily increase funding for any year at BPA's discretion to carry out activities BPA wishes the Foundation to pursue that year. The ability to provide additional funds at BPA's discretion allows BPA to increase funding of Foundation activities when and where BPA believes the Foundation is adding value.

Option E allows BPA to permanently increase the base payment up to 33% if BPA believes doing so would help BPA meet its statutory responsibilities. Thus, combining D and E allows BPA to capture unique opportunities that arise from time to time, as well as permanently increase funding if the Foundation performs well. It allows BPA to "ramp-up" Foundation activities permanently at a time when the region is likely to experience rapid growth in demand for cost-effective conservation, renewables, demand response resources, technological innovation, and watershed improvements.

9. Document Decision and Supporting Rationale

The Administrator accepts staff's recommendation for a combination of Options D and E to enter into a long-term funding agreement with the Foundation where BPA will replace the existing agreement under which BPA will make annual fixed payments to the Foundation to support BPA mission-related activities in an amount of $1.3 million in calendar year 2009 beginning on April 1, 2009. Doing so furthers BPA's mission of promoting the potential development of cost-

effect conservation, renewable resources, demand response resources, technological innovation and watershed improvements.

Central goals of the new arrangement are to: (1) complement BPA's programs in support of BPA's mission through the actions of Bonneville Environmental Foundation, (2) create a mechanism to encourage Bonneville Environmental Foundation's pursuit of regional renewable and environmental goals to complement BPA's program, and (3) continue BPA's association with an innovative, fiscally conservative enterprise that continues to use market mechanisms and other creative approaches to complement BPA's program, particularly with respect to cost-effect conservation, renewable resources, demand response resources, technological innovation and watershed improvements.

This is a change from the current funding arrangement, which is predicated on continued sales of an environmentally preferred power product (a policy BPA no longer expects to continue) and based on the variable output of projects participating in this program. Under the new funding arrangement, payments will be more certain because they will not be based on variable output of power projects.

The new funding arrangement sets the initial base payment amount for the Foundation's Fiscal Year 2010, which begins on April 1, 2009, at $1.3 million. This amount is an increase from the amount BPA paid the Foundation in 2008 (about $1.1 million) to account for inflation and the fact that the Foundation is giving up potentially higher revenues from environmentally preferred power projects in windy years. This approach provides the Foundation with a more predictable revenue stream for the remainder of the period of the existing agreement, at the cost of giving up some upside revenue potential. It is the intent of the Administrator that the total budget of BPA will never be higher with this agreement in place than it would have been in the absence of this agreement. The agreement's net effect on future BPA rates is therefore expected to be zero.

There will be a one-time transitional payment to close out the existing funding agreement of $550,000 to cover the six month period from October 1, 2008 to April 1, 2009 when payments begin under the new funding arrangements. This amount is about one-half of the annual amount that would have been paid for the current year on September 30, 2009, under the existing agreement. This payment is necessary because the new arrangement provides for payments to be made at the beginning of the Foundation's fiscal year, which begins April 1, whereas the old arrangement provided for payments to be made at the end of BPA's fiscal year.

BPA will have the discretion under the funding mechanism to make supplemental payments to the Foundation in an amount not to exceed annual base payments to support new program or to expand existing programs. BPA will also have the discretion to permanently increase base funding by up to 33% in any one year to roll a new program into base payments or to expand an existing program. However, it is the intent of the Administrator to employ a process to involve the public in any BPA decisions to make permanent increases in base funding.

As explained elsewhere in this document, BPA will have the right to reduce base payments by up to 25% on six months notice for up to two years should BPA experience a financial crisis. This assures that Foundation payments can be cut back under a financial emergency.

BPA will have the right to terminate the agreement with five years formal notice to the Foundation for any reason, thereby limiting BPA's cost exposure under the agreement. Similarly, BPA may terminate the agreement on two years notice for cause if the Foundation is not using BPA funds to further BPA's mission as intended.

There is a mechanism in the agreement for the parties to review the agreement in five years to assure its objectives are being accomplished.

10. Implementation Plan

Responsibility for administering the agreement and serving as liaison between BPA and the Foundation has been assigned to BPA's Chief Technology Officer. Before funding begins in April, BPA and the Foundation will develop an outline for the content of annual reports the Foundation must provide BPA at the end of each Fiscal Year.

BPA's Chief Operating Officer has been assigned to BPA's ex-officio position on the Foundation's Board, effective April 1, 2009

Issued in Portland, Oregon.

Stephen J. Wright
Administrator and Chief Executive Officer
Bonneville Power Administration

January 30, 2009
Date