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October 7, 2003

MEMORANDUM

TO: Council members

FROM: Tom Karier, Vice Chair and liaison to the Columbia Basin Trust
John Harrison, Information Officer

SUBJECT: Background on the Columbia Basin Trust and its presentation to the Council at the Missoula meeting, October 14-15, 2003.

Agenda: Dinner Tuesday, 6 p.m., The Depot
Presentation by the Trust, 10:15 - 11 a.m. Wednesday

The Trust is the Council's closest counterpart agency in British Columbia. The Trust was created by the provincial Legislature in 1995 and endowed with an initial investment of \$295 million. According to the law that created it, the purpose of the Trust is to "... invest, spend and otherwise manage the regional allocation and the corporation's other assets, including any assets that may be transferred to it, for the ongoing economic, environmental and social benefit of the region ... most affected by the Columbia River Treaty."

The Trust invested the initial \$295 million, which came from a portion of Canada's "Downstream Benefit" under the Columbia River Treaty. The Trust uses interest income from the investment to fund its projects, consistent with its master plan for the Canadian Columbia River mainstem and tributaries (the area affected by the Treaty dams). The budget is about \$4.5 million per year. Income from power sales (a Trust subsidiary has completed one powerhouse at a dam, is building another and is investigating a third) will boost expenditures substantially over time.

Beginning in 1996, the Council undertook a process of periodic meetings with the Trust Board of Directors, executives and staff in order to share information and define common interests, such as fish and wildlife improvements in the boundary area and power-related issues. In July 2000, the Council and the Trust signed a memorandum of agreement that designates the vice chairs of the two agencies as official liaisons and commits us to meet at least annually to discuss issues of mutual concern. In July 2003, the Trust hosted a Council delegation that included Tom Karier and the chairs of the Power and Fish and Wildlife committees. In turn, the Council invited the Trust to make a presentation at the October Council meeting.

Here are some of the issues we expect the Trust to address in Missoula:

Water Initiatives/Columbia River Treaty:

The Trust is working on a planning/consultation process for the Canadian Columbia River and its tributaries, as there is neither a comprehensive vision nor a strategic plan for water

issues in the Canadian part of the basin. The Trust is soliciting public opinions about water issues and creating a forum for advocating concerns about water to the provincial and federal governments. This will be useful in negotiating a new Columbia River Treaty.

The Trust plans to be at the table to negotiate a new treaty but does not have authority in that regard -- not yet, at least. But by building an infrastructure of public opinion, contacts and confidence, the Trust hopes to be the people's choice to represent them in treaty negotiations. There is legal precedent for the Canadian federal government to designate local or regional entities to negotiate on behalf of Canada. The Trust sees the Council as a potential partner in defining issues for the next treaty.

Power issues:

New hydropower: The Trust's energy subsidiary purchased 149-megawatt Brilliant Dam from Teck Cominco, a Canadian company that owns a smelter in Trail. The Trust and its energy subsidiary recently completed a 20-megawatt expansion of the existing powerhouse at Brilliant and has started construction of a 100-megawatt second powerhouse at the dam. The same energy subsidiary recently completed a 170-megawatt powerhouse at Keenleyside Dam on the Columbia. The plant has been operating for about a year. The subsidiary also is considering a powerhouse expansion or construction of a second powerhouse at Waneta Dam at the mouth of the Pend Oreille River.

Dissolved gas: Keenleyside Dam was built without generators -- they were not economical at the time (the dam was completed in 1969). The lack of generation meant that water often was spilled, contributing to dissolved gas levels in Lake Roosevelt. The new, two-generator powerhouse is lowering dissolved gas levels downstream in Lake Roosevelt. The second powerhouse at Brilliant Dam also should reduce dissolved gas levels in Lake Roosevelt, and if the Trust goes ahead with a planned new powerhouse at Waneta Dam, dissolved gas could be reduced further. The Trust may ask the Council to join an investigation into the potential for dissolved gas reduction from a new powerhouse at Waneta.

VAR-Q: The Trust officially commented to the Corps of Engineers last fall on the potential damaging effects at Kootenay Lake from VAR-Q flows at Libby. VAR-Q, according to the Corps' EA, could raise the level of Kootenay Lake as much as two feet, flooding some lakefront homes and property. For this reason, the Trust opposed implementation of VAR-Q until such time as the potential impacts could be properly identified and mitigation/compensation issues addressed. Our mainstem amendments support VAR-Q. While we recognize the potential for higher water levels in the Bonner's Ferry/Creston area and in the lake, we also recognize there are important biological and environmental benefits associated with stable outflows from Libby and generally higher Lake Kootenay levels that would result from VAR-Q. John Fazio modeled VAR-Q impacts on Kootenay Lake and concluded there is about a 25-percent chance in any year of a two-foot rise as the result of VAR-Q operations. VAR-Q flows (lower in winter, higher in spring and summer) also would reduce annual hydropower generation, according to John's analysis. The net loss is significant, but not huge -- about 100 megawatt-months (at \$28/MWh average, that is about \$2.5 million per year).

Salmon:

The Trust, in partnership with First Nations groups, is interested in restoring anadromous fish to the Canadian Columbia River and tributaries, but Chairman Smienk has made it clear that it won't happen without the cooperation of U.S. entities. The power sales contract for the output of the new powerhouse at Brilliant commits the buyer, Aquilla Energy, a U.S. firm, to assist in providing adult fish passage at the dam after the first 30 years of the 60-year contract. The two

turbines at Keenleyside are designed to allow juvenile fish passage. Thus, the Trust left the door open for future salmon passage at Brilliant and Keenleyside if a decision ultimately is made to reintroduce salmon into the upper Columbia.

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