

18th Annual Report of the Pacific Northwest Electric Power and Conservation Planning Council

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September 22, 1998

Dear Citizens of the Pacific Northwest:

The Northwest Power Act of 1980 gave the governors of the four Northwest states valuable tools for addressing regional energy, fish and wildlife issues. Through the Northwest Power Planning Council, which the states created under authority of the Act, Northwest citizens have an important voice in decisions about the region's unique hydropower system. Through the Council, the region also has significant influence over the investment of electricity ratepayer money in energy, fish and wildlife initiatives, an open forum for public debate of these issues, and a means of conducting independent analyses of complex resource issues.

The complex issues our region faces today arise in a much different world than in 1980. The introduction of competition in the energy industry has changed the role of regional energy planning, one of the Northwest Power Act's central features. Endangered Species Act listings have, in some instances, dominated the regional voice in federal hydropower operations that the Northwest Power Act gave the region through the governors. The role of the Bonneville Power Administration, principal financier of energy conservation and fish and wildlife measures under the Act, is changing dramatically.

Through all of these changes, the Council will continue to provide high-quality, objective analysis, oversee annual implementation of our Columbia River Basin Fish and Wildlife Program, and ensure that fish and wildlife funds are well spent. We also will continue to provide for public involvement in regional energy and fish and wildlife issues, and communicate with the public and disseminate public information.

In this 18th annual report, we briefly discuss our major activities during the past year. Again this year, the report is brief because the details of our efforts are documented extensively elsewhere - in our draft Fourth Northwest Power Plan, in issue papers, in analysis Council staff carried out for the Northwest Energy Review Transition Board, and in our proposed budget for Fiscal Years 1999 and 2000. These documents are available at our Internet site (www.nwcouncil.org) or from our automated information system (call 1-800-452-5161 and ask for extension 700). The electronic version of this report includes links to all these documents.

John Etchart
Chairman

MAJOR COUNCIL ACTIVITIES IN FISCAL YEAR 1998

Following is a brief review of major tasks the Council has undertaken in Fiscal Year 1998

Review of Fish Hatcheries

The Issue: The region lacks a coordinated policy to guide future operation and funding of fish hatcheries in the Columbia River Basin. At the request of Congress, the Northwest Power Planning Council convened a panel of scientists and an advisory committee to review all fish hatchery production in the Columbia River Basin as a first step toward developing such a policy.

Timeline: The review should be completed and delivered to Congress by June 1999.

Background: Fish hatcheries have a long history in the Columbia River Basin. For more than 100 years, hatcheries have been used to produce fish for harvest, primarily in commercial fisheries in the lower Columbia River. For the last 60 years, hatcheries also have been used to mitigate the impact of federal dams on salmon and steelhead. Because most of this fish production, and commercial fishing occurred downstream of Bonneville Dam, some people believe the less-abundant wild salmon and steelhead that spawn upriver were disproportionately affected. Hatcheries, regardless of where they are located, can also experience disease problems, and these diseases can be passed to other fish when the diseased fish are released. In addition, knowledge gained in recent years indicates that hatchery operations can affect the genetics of fish. This can make hatchery fish less successful at surviving in the wild and also affect other fish if hatchery fish breed naturally.

On the other hand, others believe artificial production may be the only way to rebuild seriously depleted stocks of salmon and steelhead that spawn in the wild. With care, hatcheries could provide the seed stocks to rebuild naturally spawning runs. This practice, known as supplementation, involves raising fish at hatcheries and then releasing them into streams where they will return, by natural instinct, to spawn.

Last September, as part of its annual program funding recommendations, the Northwest Power Planning Council called for a comprehensive review of artificial production of fish in the Columbia River Basin. Earlier in the year, Congress called for a similar review as a first step toward developing a coordinated policy to guide future operation of federally funded hatcheries in the basin, and two recent independent scientific reviews of fish and wildlife restoration in the Columbia River Basin have done so, as well. The common concern in each case was whether current hatchery practices and the level of production - about 80 percent of the Basin's fish are produced in hatcheries - are appropriate.

The Council's review, which will be conducted by independent scientists and monitored by a broad-based, 25-member advisory committee, will address three major questions:

1. How does artificial production fit, or might it be altered to fit, into the Columbia Basin ecosystem?
2. How can artificial production be used to meet the needs of society for sustainable

populations of fish that support harvest, as well as other competing resources?

3. What institutional structures are needed to meet the needs of society for sustainable populations of fish that support harvest?

Five scientists have been appointed by the Council to conduct the hatchery review. Three are members of the Independent Scientific Advisory Board, a panel of scientists who advise the Council and the National Marine Fisheries Service. They are Jim Lichatowich, a consulting fisheries biologist from Sequim, Washington; Rick Williams, a consulting geneticist from Meridian, Idaho; and Brian Riddell of Nanaimo, British Columbia, a fisheries biologist with the Department of Fisheries and Oceans, the Canadian federal fisheries agency. The two other scientists are Ken Currens, a biologist with the Northwest Indian Fisheries Commission in Olympia, Washington, and Ernie Brannon, a biologist with the University of Idaho.

Review of Corps of Engineers Capital Construction Projects

The Issue: What fish passage improvements should the Corps of Engineers pursue in the future at dams on the lower Snake and Columbia rivers?

Timeline: The review is scheduled to be completed early in 1999.

Background: In the Conference Report accompanying the Energy and Water Development Appropriations Act for Fiscal Year 1998, Congress directed the Northwest Power Planning Council to review "the major fish mitigation capital construction activities proposed for implementation at the federal dams in the Columbia River Basin." By definition, then, this is a review of the U.S. Army Corps of Engineers' Columbia River Fish Mitigation Program. Through this program, the Corps improves fish passage at its Columbia and Snake River dams. Fish passage devices include screens to keep juvenile salmon and steelhead from being drawn into the turbines, bypass systems to carry juvenile fish around the dams, collection devices to direct juvenile fish into barges or back into the river on the downstream side of the dams, fish ladders to help adult fish swim over the dams, and related equipment. The conference report notes that the Corps' program appears to reflect multiple, sometimes conflicting strategies. Concurrently with studying the impacts of drawing down or breaching dams, the Corps' program recommends significant amounts of funds to improve structural facilities at those same projects.

Congress did not ask the Council to resolve such conflicts, but to point them out for further review. The Council also will identify policy and technical questions that should be addressed. The Council will address policy questions, and scientific or technical questions will be referred to the Independent Scientific Advisory Board, an 11-member panel of independent scientists who advise both the Council and the National Marine

Fisheries Service.

The Council's review will be completed in three separate phases. The first, which was completed in June, addressed questions surrounding the Bonneville outfall and John Day Dam extended-length screens. The second, which will deal with surface bypass systems and gas abatement measures, will be completed this fall. The third phase will provide a technical review of adult fish passage improvements at mainstem dams and an evaluation of major strategies and technologies for assisting downstream passage of salmonids. It will be completed in early 1999.

Management Review of Bonneville's Fish and Wildlife Contracting Procedures

The Issue: A 1996 amendment to the Northwest Power Act requires improved cost-effectiveness and accountability for fish and wildlife spending in the Columbia River Basin. In response, the Council retained Moss Adams LLP, an independent accounting firm, to conduct a management review of contracting processes for implementing the Council's Columbia River Basin Fish and Wildlife Program. In February 1998, after seven months of work, Moss Adams reported that the contracting process needs more competition, streamlined project procurement and improved accountability.

Timeline: Bonneville is undertaking an internal review and will consult with the Council.

Background: The review came on the heels of a Council-sponsored review of Bonneville's other costs. That review recommended \$147 million in annual savings at the agency. The review also included a number of recommendations regarding the regional planning and prioritization process.

Most of the findings and recommendations of the contracting review address Bonneville's fish and wildlife project procurement and contract administration. Specifically, the review made recommendations in four areas: contract procurement, contract administration, program planning and, monitoring and evaluation. Highlights of the recommendations include:

- Increase competition in solicitation and negotiation of contracts and make the procurement process more efficient through more comprehensive program planning.
- Require additional reporting and documentation to ensure accountability for contract modifications, budgets and schedules, project status and project monitoring.
- Planning documents should be more specific about project scoping, cost definition and prioritization. Providing more specificity during planning would allow project solicitations to be more focused.

- Ensure that monitoring and evaluation play a larger role in annual planning so procurement can be guided by project results. Give one entity responsibility for monitoring and evaluation.
- Develop a unified regional plan and enhance planning efforts prior to soliciting for proposals.

Fiscal Year 1999 Fish and Wildlife Project Selection

The Issue: Recommending the allocation of \$131 million of Bonneville ratepayer money on fish and wildlife restoration to implement the Council's Columbia River Basin Fish and Wildlife Program in Fiscal Year 1999.

Background: Consistent with an amendment to the Northwest Power Act in the Energy and Water Appropriations Act of 1997, each September the Northwest Power Planning Council recommends projects to Bonneville for funding in the coming fiscal year. The project selection process takes most of the year and includes project review and prioritization by the Columbia Basin Fish and Wildlife Authority, an association of the region's state, tribal and federal fish and wildlife agencies; review of the proposed projects by independent panels of scientists and economists; and review by the public and the Council. Responding to a request from the region's fish and wildlife managers, the Council boosted spending by about \$5 million over 1998 levels with money from a contingency reserve and previously unspent funds.

Timeline: Schedule for Annual Project Selection Process:

January

Project proposals due to Bonneville; projects compiled for regional review and distributed.

February

Independent Scientific Review Panel begins review of project proposals.

April

Columbia Basin Fish and Wildlife Authority reviews project proposals and completes a draft work plan for independent scientific review.

June 15

Independent Scientific Review Panel reports on the proposed projects and the Basin Authority's draft work plan.

June - August

Public review and comment on ISRP recommendations and draft work plan; Council completes cost-effectiveness review and report on ocean impacts.

September

Council recommends projects to Bonneville for funding.

October 1

Fiscal year begins.

A New Scientific Foundation for the Fish and Wildlife Program

The Issue Fish and wildlife recovery efforts in the Columbia River basin lack an underlying, unifying scientific framework. In coordination with federal and tribal governments, and interested parties, the Council is taking steps to develop one.

Timeline: The first round of policy option development, economic and scientific review should be completed by the end of 1998. The second and third phases of the project, which include additional analysis and refinement of the options will be completed in the fall of 1999.

Background: Two panels of independent scientists, one appointed by Congress and the other by the Northwest Power Planning Council, said the region's recovery efforts could be improved substantially if they went beyond individual problems of individual species and instead were based on a view of the ecological needs of many species. The scientists' advice may provide a way to address the region's frustration with competing salmon recovery plans by creating a recovery framework based on scientific principles. That framework would evaluate everyone's strategy by the same criteria developed and examined by teams of independent scientists, economists, policy-makers and interested members of the public.

There are three main steps involved in the framework development project. The first is scientific. The Power Council and others have summarized the two scientific panels' work in a set of scientific principles to guide the framework project's analysis. Developing policy options is the second step. A broad spectrum of interests will be given an opportunity to develop a set of options for the future of the Columbia Basin, including goals for the river and the strategies necessary to meet those goals. Using workshops and public meetings, the framework project will narrow the various options proposed by the region down to a handful of major alternatives. The alternatives' costs and economic, social and cultural effects will then be analyzed by independent experts.

The third step involves a scientific review, using the principles mentioned earlier, of each of the proposed options to determine whether they are likely to achieve their stated goals and objectives. With the benefit of the scientific and economic, social and cultural analyses, policy makers and the public will have further opportunities to rethink and improve the alternatives. After the refinements, each option will be thoroughly reviewed and critiqued by the same independent experts in law, science, economics and social and cultural analysis.

The framework project is being collaboratively managed by an array of governments with public participation. The project is a serious attempt by the relevant governments and decision-makers to bring a sense of order, fairness and transparency to the debate about the future of the Columbia River. If the project is successful, the region finally will

have a specific set of clear options for the future of the river, options that can be debated more effectively, honestly and thoroughly than any created to date.

The project will help ensure that each of the governments and agencies involved in managing the river will be working from the same information and choosing from the same range of possible options. And, the information and options will be developed in an open, public fashion that ensures all voices are heard.

Northwest Energy Review Transition Board

The issue: In 1996, a 20-member committee appointed by the governors of Idaho, Montana, Oregon and Washington reviewed the Pacific Northwest electricity system and made a number of recommendations for how the region should respond to increasing electricity industry competition as the result of deregulation and also preserve the benefits of the region's mostly federal hydropower system. Following the conclusion of the Comprehensive Review of the Northwest Energy System, the governors appointed the four-member Northwest Energy Review Transition Board to carry forward the recommendations of the review in the form of draft legislation - a "Northwest Chapter" for federal energy deregulation legislation.

Timeline: The Transition Board appointed subcommittees to work on certain key recommendations of the Comprehensive Review. The Transition Board intends to complete work on the Northwest Chapter and submit it to the governors in the fall of 1998.

Background: The Transition Board has focused its efforts on the Comprehensive Review's recommendations for meeting the obligations and preserving the benefits of the Bonneville Power Administration. Those include:

- Development of a subscription system by which customers will contract for the purchase of Bonneville power in the future.
- Development of a contingent cost recovery mechanism to ensure that Bonneville is able to meet its financial obligations in the face of uncertain future costs and market conditions
- Effective separation of Bonneville's power marketing and transmission functions, and regulation of Bonneville's transmission equivalent to the regulation of the transmission of investor owned utilities in order to assure open, non-discretionary access to regional transmission.

The Board established work groups on these issues that have been meeting on a bi-weekly basis for the last 18 months. However, the contentious nature of these issues is such that although great progress has been made, there is not consensus. The Transition Board is developing recommendations for the Governors on the latter two issues that it hopes will have broad support if not consensus. The Board may also find it necessary to take a position on subscription issues.

The Fourth Northwest Conservation and Electric Power Plan

The issue: The Fourth Northwest Power Plan describes the changing electricity industry, analyzes some of the consequences of the more competitive power market that is emerging, and suggests some alternative strategies the Northwest may adopt in response to industry changes.

Timeline: The Council last updated the power plan in 1991. The Council released the draft Fourth Northwest Power Plan for public comment in March 1996. Comment on the draft was held open through 1996 while the Comprehensive Review of the Northwest Power System was conducted. In 1997, following the Comprehensive Review, the Council updated the draft with an addendum. After a public comment period, the Council approved the power plan in 1998.

Background: The Fourth Northwest Power Plan explores key issues this region must address as the electricity industry becomes more competitive. Many of these issues were addressed by the Northwest Energy Review Transition Board (See item 6 of this report). In the power plan, the Council addresses the recommendations of the Comprehensive Review, which in many cases were quite broad. The Council's plan is intended to refine the Review's recommendations for state and local policy-makers. Here are some of the Council's key recommendations:

Competition and consumer choice:

Separation of Distribution and Energy Marketing:

The Comprehensive Review noted that effective separation of utilities' distribution and energy marketing functions is necessary if a truly competitive retail market is to be established. The Council recommends that if effective separation is to be achieved, policy-makers will have to provide for either increased regulatory oversight to guard against abuses or require actual separation.

Pricing:

The Comprehensive Review recommended that the unbundling of electricity prices and recovery of transition costs (e.g., stranded investment recovery and public purpose funding) be carried out in a competitively neutral fashion. The Council notes that efficient competitive markets require marginal cost pricing - products and services priced at the cost of producing the marginal or last unit. "Unbundling" of prices requires, at a minimum, separating the costs of distribution from the cost of the energy commodity. This is essential if consumers are to be able to accurately compare one competitor's product with another's.

Market information:

The Comprehensive Review noted that information about the market is critical if the market is to be both fair and efficient. The Steering Committee made specific recommendations regarding information to be provided on customer bills. The Council's

plan notes that in addition to unbundled prices and billing information, consumers need to be provided information that allows them to compare the characteristics of the products and services being offered by competitors before they are expected to choose suppliers.

Accountability and administration:

The Comprehensive Review's recommendations include a number of new public responsibilities - provision of consumer information services, monitoring and enforcing competitive conditions, development and evaluation of pilot programs, ensuring reasonably consistent market conditions and consumer protection laws and their enforcement, registration and licensing of energy service providers, development of a consumer complaint and arbitration process, and creating and administering a universal service fund. According to the Council, if these functions are to be carried out, responsibility needs to be assigned and the activities supported. Provision should be made for many of these services to be funded through a competitively neutral distribution system charge, as has been proposed for other public purposes.

Stranded investment and "windfall profits:"

Utilities with higher-cost resources could experience stranded investment during the transition to competition - fixed costs that cannot be recovered at market prices. Conversely, utilities with low-cost supplies could experience "windfall profits" from being able to charge market prices. The Comprehensive Review noted that an opportunity for recovery of stranded investments from the historical customer base is an appropriate transition mechanism. According to the Council's plan, just as stranded investment recovery is appropriate, so is the sharing of windfall profits with the historical customer base. This is the other side of stranded investment recovery. Stranded investment or windfall profits should be determined on the basis of the utility's entire generating system, not individual resources, and recovery or distribution should follow principles of competitive neutrality.

Conservation and renewable resources:

Aligning responsibility for conservation with business interests:

The Comprehensive Review recommended that local utilities be responsible for collecting and using most of the public purpose funding for conservation and low-income weatherization. According to the Council's plan, in assigning responsibility for conservation in a restructured, competitive retail electricity market, policy-makers should consider how that responsibility will align with the business interests of the different utility functions and try to minimize conflicts. How unbundled rates are structured will affect the incentives for a utility to carry out conservation efforts. If a distribution utility's fixed costs are predominantly collected in a per kilowatt-hour charge, the utility will face a disincentive to pursue energy conservation. If the conservation significantly reduces peak demands, and the utility's fixed costs are recovered in a demand-based charge, the utility will face a disincentive to pursue

conservation.

Aligning responsibility for renewable resource development with business interests:

The Comprehensive Review Steering Committee recommended that public purpose funding for renewable resource development be administered by a regional non-profit entity, but gave local utilities the right to choose to use those funds for their own renewable resource development. According to the Council, local utilities undertaking renewable resource development should consider mechanisms such as power purchase contract provisions, production incentives and financing incentives that limit their risk exposure and promote competition. Renewable resource development and marketing should not be a responsibility of the distribution function, except where such development is used to reduce distribution system costs. Mixing the distribution and energy marketing function regarding renewable resource development would defeat the intent of separation of those functions.

Consistency with the competitive market:

The Comprehensive Review Steering Committee expressed a preference for relying on market forces wherever possible to achieve the region's goals for developing conservation and renewable resources. This implies that, to the greatest extent possible, the restructuring of the electricity industry should be done in ways that complement or encourage the development of competitive markets for energy-efficiency services and renewable resources. In the power plan, the Council recommends that energy service providers should have access to information regarding consumer electricity use, as in the case of energy marketers. This information is necessary to effectively target energy-efficiency services. To deny energy-efficiency service providers this information puts them at a competitive disadvantage. Consumers also need adequate information about suppliers.

Establishing implementation objectives:

The recommendations of the Comprehensive Review focused on ensuring that funds are collected to sustain development of conservation and renewables. They did not provide much guidance on how the money should be directed, other than in very broad categories. According to the Council's plan, implementing rules to guide the use of public purpose funding should be established. Policy criteria that should be considered include: - Using public purpose funding to encourage development of cost-effective conservation that is the least likely to be developed by the market alone; - Establishing cost-effectiveness criteria that reflect the public rather than utility nature of the funding. Such criteria should take into account environmental benefits and other non-electrical and non-energy benefits of a conservation investment; and - Giving priority to low cost and "lost-opportunity" resources to maximize the effectiveness of public investment.

Bonneville Cost Review: Cut Annual Spending By \$147 Million

The Issue:

Deregulation of the nation's electricity industry has driven down the wholesale cost of power. In order to attract customers after 2001, when 90 percent of its power sales contracts expire, the Bonneville Power Administration needs to reduce the costs it recovers through rates as much as possible, consistent with the Comprehensive Review and sound business practices. At the request of Congress and the Governors, the Council and Bonneville convened a committee that included five experts in corporate management to review the costs Bonneville recovers (Bonneville, Corps, Bureau, Supply System). The committee recommended cuts that should yield approximately \$147 million in annual savings during the next five-year Bonneville rate period, beginning in 2001.

Timeline:

The committee submitted its final recommendations to Bonneville and members of the Northwest congressional delegation on March 9, 1998. Implementation of the recommendations will be Bonneville's responsibility.

Background:

The Bonneville cost review grew out of the 1996 Comprehensive Review of the Northwest Energy System. One key recommendation was to market Bonneville's power long-term to regional customers.

Following the Comprehensive Review, the governors asked the Power Planning Council to work with Bonneville to appoint a cost-review committee. The work began in June 1997 and was completed in March 1998. The committee included four Council members, two representatives from Bonneville and five experts in corporate management and finance. The Committee's goal was to ensure that Bonneville's near and long-term power and transmission costs are as low as possible consistent with sound business practices, thereby enabling full cost recovery with power rates at or below market prices. This is necessary, they believe, if Bonneville is to successfully subscribe its products to in-region customers.

The committee's recommendations are summarized in the following table:

Recommendations	Annual Average Reductions	
	FYs 2002-06 \$ in millions	
	Total	Power Business Line
1. Further reduce staffing and support costs of power marketing and other PBL functions not directly related to operation of the	14.7	14.7

Federal power system, through efficiency initiatives and reoriented long-term marketing efforts.

<p>2. Fund regional conservation market transformation at a level proportional to the percent of regional firm load served by Bonneville, as called for in the Comprehensive Review. Recommended reduction brings the Cost Baseline into line with estimates of the firm power load served by Bonneville. Review the appropriateness of continued Bonneville support no later than 2004.</p>	4.6	4.6
<p>3. Reduce projected legacy conservation contract expenses to reflect historical under-spending. Do not modify or extend existing contracts, except that the State's low-income weatherization contract should be extended consistent with the end of the legacy commitment to utilities. Reduce associated staffing.</p>	2.5	2.5
<p>4. Further reduce funding for the NW Power Planning Council to reflect changes in Bonneville's regional role (i.e., curtail new resource acquisitions), carry out the Council role in power recommended by Comprehensive Review and the continued importance of fish and wildlife issues. Seek additional funding from other sources for Council activities that are of regional scope. Reductions assume one Council representative per state. A process should be carried out to determine both the functions the region wishes the Council to perform and how the functions should be funded.</p>	1.1	1.1
<p>5. Provide funding for costs of the three renewable resource projects that Bonneville currently is planning, and currently planned levels of renewable resource data collection and R&D. Annual net cost above project revenues should not exceed \$15 million per year, including the data collection and R&D costs. No additional renewable resource projects unless Bonneville's costs are recovered fully by project revenue.</p>	2.2	2.2
<p>6. Develop and implement a consolidated, integrated capital/asset management strategy for federal hydro directed at maximizing value, including both financial returns and public benefits. The strategy should encompass the operation and maintenance of the physical assets, a coordinated investment plan, potential consolidation of duplicative administrative support services among FCRPS agencies, and the creation of integrated performance measures. Performance should be measured explicitly and reported publicly, accountabilities established, and incentives created and applied FCRPS-wide. Estimates at right include a combination of reduced O&M expenses from the Cost Baseline and increased revenues from higher production.</p>	Corps: 40.0	Corps : 40.0
	Bureau: 8.0	Bureau: 8.0
<p>7. Implement a strategy for WNP-2 that combines aggressive cost management with a flexible response to market conditions</p>	19.0	19.0

and unforeseen costs. Manage annual operating costs to annual revenues achievable at market prices. In BPA's subscription process and upcoming rate case, determine how to allocate the plant's costs in Bonneville rates and market a portion of the Federal Base System (FBS) equivalent to the planned output of WNP-2 priced in a manner that ensures recovery of the plant's operating costs while allowing a lower price for the rest of the FBS, unless legal or other issues prevent doing so. To the extent revenues exceed operating costs, use a portion of the resulting net operating revenues to build up the decommissioning fund. Biennially subject the plant to a market test. Evaluate termination in the event operating costs are projected to exceed revenues significantly if uneconomical at market prices. Estimated reduction includes a combination of reduced O&M expense from the Cost Baseline and potential increased revenues.

8. Further reduce the cost of Bonneville administrative and other internal support service costs including financial, human resources, information management, procurement, strategic planning, public affairs, legal services and other internal service costs, by an aggregate 50 percent from 1996 actual levels. Achieve through benchmarking, adopting "best practices," enterprise software, and outsourcing of non-core functions where economic.	31.7	14.5
9. Obtain legislative changes in the areas of personnel management and procurement to improve administrative flexibility and ability to manage internal costs.	10.0	7.0
10. Further reduce transmission internal O&M expenses through improved efficiencies.	2.5	1.5
11. Conform to Federal Power Act requirements, adjusting and correcting functionalization (allocation) of costs between Power and Transmission BLs.	0.0	30.0
12. Further reduce federal and non-federal debt service expenses through refinancings, greater reliance on variable rate debt, and other debt reduction actions	20.0	20.0
13. Targeted, but unspecified reductions already included in Power Cost Baseline.	(19.4)	(19.4)
TOTAL	136.9	145.7

In addition, the TBL should meet the cost management objectives in its baseline, in particular:

- Obtain operational efficiencies, tighter control on timing and prioritization of capital investments to achieve superior performance compared to the WSCC transmission providers (top one-third);
- Reduce fully allocated hourly costs of transmission maintenance service by 20 to

- 30 percent by 2001; and
- Increase flexibility of cost structure.

Assessing Bonneville's Potential Financial Situation

The issue:

At the request of the Council's four-member Power Committee, the staff conducted an analysis of the Bonneville Power Administration's potential financial condition, which could result under different future electricity market conditions and Bonneville costs, particularly fish and wildlife costs. It is important to estimate future market prices with confidence, as this will help the region resolve the contentious issue of developing a stranded-cost mechanism for Bonneville.

The analysis suggests that in most combinations of future market prices for electricity and salmon mitigation measures, Bonneville's electricity remains competitively priced. That is, Bonneville should be able to meet its financial and legal obligations in the future, including salmon recovery, and still return substantial benefits to its customers except in the event that the most adverse market conditions combine with the significantly increased costs for salmon mitigation.

Timeline:

The staff presented its conclusions in May 1998, and then sought public comments on the report.

Background:

Bonneville faces a number of uncertainties in the future, primarily from the impacts of the increasingly competitive marketplace for electricity and uncertain future fish and wildlife costs. After 2001, when most of Bonneville's current power sales contracts expire, Bonneville's customers will have to choose between Bonneville and other power suppliers. As well, Bonneville will continue to pay the majority of the region's fish and wildlife restoration costs, regardless of whether Snake and Columbia river dams are breached or left in place.

The Council's Power Division analyzed Bonneville's future value using a sophisticated computer model that simulates the West Coast electricity system. To ensure an impartial analysis, the Council invited representatives from Indian tribes, the aluminum industry, environmental groups and electric utilities, as well as experts in policy regarding fish and wildlife and energy, to oversee the analysis. These experts generally praised the Council's work and supported the conclusions in the analysis.

The analysis estimates the costs Bonneville may have to recover through its power rates given a range of possible prices for electricity and salmon mitigation obligations. Bonneville pays for most of the region's salmon mitigation efforts through the Council's

Columbia River Basin Fish and Wildlife Program.

In addition to three ranges for future electricity market prices, the analysis included eight future salmon mitigation scenarios. These ranged from few changes at the dams or in river conditions, such as boosting flows or spilling water during the spring and summer when juvenile fish are migrating to the ocean, to breaching the four lower Snake River dams and John Day Dam on the Columbia River. Each scenario, or a variation, is being studied by the U.S. Army Corps of Engineers as the dam-operating agency prepares a feasibility study on the future of the four lower Snake River dams. A draft of the Corps' study is due in April 1999.

The analysis was not intended to support any of the salmon recovery measures. The Council's intent only was to estimate Bonneville's future income based on various combinations of salmon recovery measures and electricity prices.

While collateral or third-party costs were not considered in the analysis, it should be useful for decisionmakers including Bonneville; Bonneville's customer electric utilities; the National Marine Fisheries Service, which is working to protect endangered Snake River salmon under the Endangered Species Act; the U.S. Army of Corps of Engineers, which operates dams on the lower Snake and Columbia rivers; Congress and the Clinton administration.

According to the Council's analysis: High market: With high future market prices for electricity - over 6 cents per kilowatt hour by the year 2020 (about 3.5 cents in today's dollars) - Bonneville has positive net revenues under all of the salmon recovery and power price scenarios considered. The market price currently is around 2 cents per kilowatt hour. Medium market: With medium escalation of future market prices for electricity - to about 4 cents per kilowatt hour by 2020 (about 2.5 cents per kilowatt hour in current dollars) - Bonneville has positive net revenues in all but the most expensive combination of salmon recovery costs and electricity prices. Low market: With low market prices - about 2 cents per kilowatt hour by 2020 (about 1.5 cents in today's dollars) - Bonneville's costs exceed revenues in all but the least expensive options, but it's close. Even a 10-percent increase in market prices could make the difference between positive and negative revenues in some instances.

Public Involvement

One of the Council's primary tasks is to fulfill the directive of the Northwest Power Act to inform and involve Northwest citizens about the Council's activities. Section 2(3) states a purpose of the Act is "to provide for the participation and consultation of the Pacific Northwest states, local governments, consumers, customers, users of the Columbia River System (including federal and state fish and wildlife agencies and appropriate Indian tribes) and the public at large within the region" in the Northwest's

planning for electrical power and protection of fish and wildlife resources. Section 4(g) (1) of the Act requires the Council to develop "comprehensive programs" to ensure public involvement and to "inform the Pacific Northwest public of major regional power issues."

The Council uses several regular publications, as well as special informational materials, media briefings, news releases, its regularly updated Internet web site (www.nwcouncil.org) and other approaches to inform interested citizens about fish, wildlife and energy issues. The Council also holds all its regular meetings, committee meetings and working sessions in public. In addition, on many issues the Council holds public hearings and consultations.

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Fiscal Years 1999 and 2000 Budget overviews

Since Fiscal Year 1992, the Council has made significant efforts to limit its budget. Through an agreement reached last year with Bonneville, the Council has set a goal of reducing the budget by \$2,000,000 - about 21 percent - over the next four years. To accomplish this, the Council will:

1. Reduce its personal services budget, primarily in power planning, due to changing conditions in the electricity industry.
2. Further reduce the level of fish and wildlife and energy systems analysis contract services by reallocating staff workloads and deferring projects to other entities where possible and re-prioritizing resources for only the most essential studies and analyses.
3. Further reduce the level of travel costs by restricting both regional and out-of-region travel for staff.
4. Constrain the cost of services and supplies by refocusing and retargeting circulation of Council publications and by curtailing other administrative operating expenses.
5. Increase efficiencies in operations and administration, in general, to absorb 2 percent to 3 percent projected inflation for Fiscal Year 1998 and for Fiscal Year 1999.
6. Reallocate staffing where possible.

The Fiscal Year 1998 budget is \$7,496,000. The revised Fiscal Year 1999 budget is \$7,155,000, a decrease of \$341,000, or about 5 percent, from the current budget. The proposed Fiscal Year 2000 budget is \$6,724,000. By way of comparison, the Fiscal Year 1992 budget was \$8,484,000. This represents a seven-year reduction of 21 percent.

During the same period, the Council absorbed cumulative inflation projected at 26.4 percent.

Rulemakings in fiscal year 1998

There were no rulemakings in Fiscal Year 1998.

More Information

For additional details about the Northwest Power Planning Council's activities, budgets, meetings, comment deadlines, policies or bylaws, call 1-800-452-5161 or visit our Internet web site at <http://www.nwcouncil.org>.

Copies of our publications are available at the web site or by calling the 800 number above and asking for extension 700, the Council's automated information service. All Council publications are free.

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