

JUDI DANIELSON
CHAIR
Idaho

Jim Kempton
Idaho

Gene Derfler
Oregon

Melinda S. Eden
Oregon

Steve Crow
Executive Director



TOM KARIER
VICE-CHAIR
Washington

Frank L. Cassidy Jr.
"Larry"
Washington

Ed Bartlett
Montana

John Hines
Montana

Council Meeting Spokane, WA

September 9-11, 2003

Minutes

All were present. The meeting was called to order by chair Judi Danielson at 8 a.m. on September 10 and adjourned at 11:30 a.m. on September 11. Tom Karier moved that the Council meet in executive session at the call of the Chair to discuss internal personnel matters. Jim Kempton seconded, and the motion passed unanimously on a roll-call vote.

Reports from Fish and Wildlife and Power Committee chairs

Ed Bartlett, chair, fish and wildlife committee; and Jim Kempton, chair, power committee.

Ed Bartlett, chair of the fish and wildlife Committee, reported that the committee discussed the Fiscal Year 2004 fish and wildlife program budget, as well as a recommendation for a \$500,000 increase in the Columbia Basin Fish and Wildlife Authority (CBFWA) budget for Fiscal Year 2004. The committee approved the increase, providing a source of funds can be identified, he said. The committee also talked about mainstem project funding recommendations and implementation of the mainstem amendments, Bartlett noted.

Jim Kempton, chair of the Power Committee, reported that the committee heard a presentation about the Council's model for analyzing risk that will be used in preparation of the upcoming Power Plan and discussed a "vision for the Northwest power system." Transmission issues included Bonneville's need for more funding for transmission, and a proposal from a Montana lawmaker that would allow the federal government to assert eminent domain over the states to establish transmission corridors in emergencies, he noted. The committee also discussed the Regional Dialogue and the revised electricity price forecast, Kempton said.

1. Council decision on Fiscal Year 2004 start-of-year fish and wildlife budget

Doug Marker, director, fish and wildlife division.

Staffers Doug Marker and Patty O'Toole presented a set of project funding recommendations for the Fiscal Year 2004 Start-of-Year fish and wildlife budget and a provisional Fiscal Year 2005 program budget. We are asking the Council to approve these recommendations so that Bonneville can go ahead with contract renewal or initiation, stated O'Toole. She went over the implementation schedule for the Fiscal Year 2004 Annual Work Plan and described how Council staff has worked to "true up" fish and wildlife project budgets established in prior provincial reviews. This effort resulted in four categories of adjustments for fish and wildlife projects and their funding, O'Toole explained, describing each one. She also went over the work that has been done to establish a Fiscal Year 2004 budget for the Columbia Gorge and Inter-Mountain provinces and to identify a set of placeholder categories and funding levels for Fiscal Year 2004.

Marker pointed out that past budgets included a placeholder for "innovative" projects, but since Bonneville has declined to fund all but two of those, this year, staff didn't recommend such a placeholder. Cassidy recommended there be a provision in the budget that establishes a mechanism whereby if the Council defines a category for a set of projects and then there are not enough projects to fund under it, the mechanism would roll the dollars over to another category of projects "so the money doesn't get vacuumed up by Bonneville."

The Independent Scientific Review Panel (ISRP) thinks it is important to have a category for "innovative, non-traditional" projects, noted Marker. Danielson inquired where the funding increase of \$500,000 in CBFWA's budget would appear. We talked about not having a placeholder for the CBFWA increase because these recommendations show current Council recommendations, replied Marker. Although the fish and wildlife Committee recommended the increase in the CBFWA budget, we didn't identify a source of funding, said Bartlett.

The Council discussed how the \$154 million in proposed Fiscal Year 2004 fish and wildlife project funding matches up with the \$139 million base fish and wildlife funding level. The amount available from "rescheduling" uncompleted Fiscal Year 2003 approved work to Fiscal Year 2004 and uncommitted funds available from Fiscal Year 2003 will be added to the base \$139 million level, but the exact amount of additional funds that will augment the base cannot be totaled until Bonneville closes its Fiscal Year 2003 books, Marker said. But we'll be under the \$139 million, he predicted.

How much will be spent this fiscal year on the fish and wildlife program? Hines asked. It's unclear as of yet, but I'd guess it's between \$115 million and \$120 million, Marker replied. If we come in at \$115-120 million, anything in the 10 percent bandwidth can move forward into the remainder of the rate period, said Therese Lamb of Bonneville. We don't know if it will all go into Fiscal Year 2004, but we are comfortable with the \$154 million figure, she stated. This is a preliminary estimate of where we think we'll be, and we'll know more when the quarterly review occurs, but the objective is that "none of the funding will be lost," Lamb said.

What about Fiscal Year 2005 and 2006 funding? Cassidy asked. I'll come back to you with more information on that, but we hope that with the quarterly review reports, we'll be managing closely enough "that we can put the program exactly where we want it to be in terms of funding," Lamb replied.

What happens at the end of the rate period with leftover unspent funds? Karier asked. We haven't addressed that yet, but we will, replied Lamb. We haven't addressed the capital budget rules in the way we have the expense rules, she added. I encourage Bonneville not to stand on the 10 percent rule -- you need to be flexible and see how it works out, Karier said.

Karier asked staff about the placeholder of \$11.5 million each year for Bonneville overhead in the proposed budget. We haven't reviewed that, he said. The Council can ask for a discussion of that, Marker responded. Karier indicated that the data management placeholder of \$250,000 each year is "minimum maintenance" for the work called for under the Science Applications International Corporation (SAIC) contract.

Derfler recommended establishment of a standby list of projects that would get funding in the event spending comes in lower than the \$139 million level. Eden asked about the \$9 million placeholder for the water marketing program. The Biological Opinion (BiOp) directs Bonneville to commit between \$5 million and \$10 million to the water marketing program, and Bonneville is guessing this is its part of the funding, Marker explained.

Eden pointed out that capital funding issues are important to water acquisitions, and that those issues need to be addressed. She also noted that Bonneville's fish and wildlife program overhead has increased by 25 percent. We are trying to focus on overhead reductions, and we hope our efforts will bring those numbers down, responded Lamb. "It's as troubling to us as it is to you," she added.

Karier moved that the Council: approve the fish and wildlife project funding recommendations for Fiscal Year 2004 to be forwarded to Bonneville; and approve the additional steps for finalizing a start-of-year Fiscal Year 2004 fish and wildlife budget and a provisional start-of-year Fiscal Year 2005 budget, as presented by staff. Bartlett seconded, and the motion passed unanimously.

2. Council decision on release of draft amendments to Council By-Laws

Steve Crow, executive director; and Bill Hannaford, senior legal counsel.

The Council worked over a set of proposed changes, put together by its bylaws committee, and then turned to the still-undecided question of how to share leadership among the states. Staffer Bill Hannaford said the Council needs to decide on provisions for the election of the chair and what to do in the event of an evenly divided vote for the chair.

Ed Bartlett recommended that if the vote is split, the current chair remain in office. Another proposal was the status quo, in which the vice-chair ascends to the chair if the vote is split. Jim Kempton recommended that a "run-off election" be held in which members vote by ranking candidates 3, 2, 1, and the winner would be the person who receives the most points. I don't think the chair should continue in position by fiat -- I think it should be a vote, he said.

I think that "reasonable people will make reasonable decisions" -- I get concerned with being too prescriptive and putting in "a default mode," commented Danielson. She suggested the bylaws simply say "At the first meeting of the calendar year, the members of the Council shall elect a chair and vice-chair."

Why do we want to get rid of the status quo? Cassidy asked. Because the bylaws committee couldn't agree on a recommendation for the Council, replied Hines, who chaired the committee. I don't want future Councils to think the vice-chair will be elected if there's a stalemate, said Bartlett.

Reasonable people deadlock occasionally – I think having some kind of “forcing principle” is good, and maintaining the chair indefinitely is not good, stated Karier. I support spreading the leadership among all the states, but we have an “upriver-downriver schism that is always rumbling,” observed Cassidy. I haven't heard a good proposal to move from the status quo, he added. Cassidy made a motion to maintain the current language in the bylaws, and Karier seconded.

I can't accept that – it would allow the ascension of the vice-chair just because the Council couldn't agree, Kempton said. An election is essential for the chair, he added.

For over three-quarters of the Council's life, the Council didn't have this provision, said Hines. I agree with Jim – I prefer a positive acclamation as opposed to a default, Hines stated. I won't support the motion, said Bartlett. The chair continuing indefinitely is a dangerous concept, observed Karier. At least the status quo allows for some transition, he added. I support the motion because I've been advocating a proposal to share leadership, and I view this as a “forcing principle,” said Eden.

The motion failed on a 5-3 roll-call vote, with Cassidy, Karier, and Eden voting yes.

Cassidy then moved that the bylaws say “The meeting shall not adjourn until a chair and vice-chair are elected by a majority.” Hines seconded. I like it – this is the way the Council should operate, said Bartlett. I support it, but “I doubt there will be crowds waiting outside to hear the results of our election,” said Kempton.

I think it's the wrong criterion for breaking a tie – seeing who has to leave first, stated Karier. It's worse than the status quo, he added.

The motion passed on a 7-1 roll-call vote, with Karier voting no.

Cassidy made the following motion on the issue of sharing leadership: “The chair, at its sole discretion, will give high priority to balancing the leadership of the Council among the four states, recognizing that the chair and vice-chair are elected by the full Council.” Bartlett seconded. The chair has to have the discretion to deal with different situations, said Cassidy. This motion allows for that, but also sends a strong message to share leadership whenever possible, he stated.

The built-in conflict between the chair's discretion and mandating that leadership be shared remains in your motion, said Eden. I think you could leave out “at its sole discretion,” she suggested. Cassidy declined to make the change, and his motion passed unanimously. The Council agreed to send the bylaws out for public review.

Kempton explained the reasons behind his proposal to change the number of Council members that constitute a quorum from five to six. He argued that a “simple majority” quorum does not meet the voting standard in the Northwest Power Act and that “the only option of the Council is

to convene a meeting on the basis of a quorum being present plus at least one extra Council member.” He asked for legal staff’s opinion. We’ve looked at this and don’t think it’s an issue, said staffer John Shurts. If there are five of you together, that is a majority and that is a quorum, he added.

Kempton moved to increase the definition of a quorum from five to six, and Hines seconded. The motion failed on a 7-1 vote, with Kempton voting yes. I’ll pursue this further, Kempton said after the vote.

3. Report from the Upper Columbia United Tribes on wildlife implementation

Peter Paquet, manager, wildlife and resident fish.

Deb Louie, chair of the Colville Tribes’ Natural Resources Committee, told the Council that the blocked area tribes get left out of a lot of decisions because of the emphasis on issues like the Endangered Species Act. We have funded a project to bypass the Chief Joseph Dam fish ladder, he noted. One of my goals is to get the fish back in our country, Louie said.

Mary Verner, executive director of Upper Columbia United Tribes, pointed out that 37 percent of all anadromous fish losses take place at Chief Joseph, Grand Coulee, and Albeni Falls dams. She said 55 percent of all hydro operations revenues come from those three projects, but that very little of that money goes back to pay for mitigation from the impacts of those dams. We’d welcome an opportunity to brief you on the blocked areas policy and the resident fish substitution policy and to tell you why they are so important to us, Verner told the Council.

She complimented Council staff on work done on the fish and wildlife project budget numbers, and she asked the Council to fully support funding for those projects. Don’t let the \$139 million cap continue -- that was supposed to be a short-term fix, Verner said. Bonneville should commit to the region in writing to a \$36 million capital budget for fish and wildlife, she urged.

The UCUTs talked with Bonneville about having postponed habitat acquisition projects go forward, Verner continued. We are being held hostage to 1-to-1 wildlife crediting in order to go forward with those projects, she said. We’d like the Council to address what will happen to land acquisition projects that are “stranded” -- we want to see them go forward, Verner stated. The crediting should have been 3-to-1, not 1-to-1 because the land that was flooded was prime land, said Louie. We had to agree on 1-to-1 just to get things moving, he stated.

We need the Council to come forward and protect our interests, Louie said. You should quit letting Bonneville give you direction and “order you around,” he told the Council. You need to give Bonneville direction, Louie concluded.

4. What happened on the East Coast during the recent blackout: How are we alike, how are we different?

Jerry Rust, Northwest Power Pool.

Jerry Rust's presentation on the East Coast blackout. Rust, director of the Northwest Power Pool, reviewed the sequence of events on August 14, 2003, when the blackout occurred, noting that "understanding what happened and why is an enormously complex task that is occurring now."

He said 16,000 MW of load dropped off line, affecting three North American Electric Reliability Council (NERC) regions. On the ledger of "what worked" during the power outage, Rust said, "we know protective relays acted the way they were supposed to act -- they removed transmission lines, transformers, and generating units to prevent physical damage. The restoration plans, a "choreograph" of re-energization of the system, transmission lines, and generators inside and outside the blacked-out area, worked, he stated.

It took three or four days to re-energize – was that envisioned in the restoration plan? Hines asked. In the Northwest, we're lucky because we can bring hydro back on quickly, whereas it takes time to bring coal and nuclear plants back, so the restoration depends on what resources are involved, replied Rust.

East vs. West

Rust pointed out that the eastern grid is thermally limited, and overloading causes lines to heat up and become dangerous. Generating stations there are generally close to load centers, and there's the potential for excessive current, he said. In contrast, the western grid is stability limited, with the potential for excessive frequency variation and excessive voltage variation, he explained. Generation stations are remote and connected by long transmission lines, Rust said. While the East has eight reliability councils, the West has one, he noted.

In the West, generation is continually delivering 100 to 200 gigawatts to loads, and energy storage is minimal, Rust told the Council. Imbalances cause the entire western interconnection to speed up or slow down, and imbalances must be corrected quickly to prevent system collapse, he said. Melinda Eden asked how an imbalance is mitigated, and Rust said that operators are required to keep reserves and that the Western Electricity Coordinating Council (WECC) requires recovery to occur within 15 minutes.

He recalled the August 10, 1996 outage in which a major system disturbance separated the western interconnection into four islands, interrupting service to 7.5 million customers for periods of several minutes to about nine hours. That problem resulted in several recommendations aimed at improving the system, Rust said.

The Pacific Northwest Security Coordinator was created to oversee transmission lines in the entire Northwest Power Pool area, and operation limits were established, which provide that the system will be operated only in configurations that have been studied and simulated, he explained. Rust also noted additional steps the Northwest took to protect itself after 1996, including the WECC reliability management system; the fact the system is now operated under a

double contingency, rather than a single one; the contingency reserve system; and generator testing.

Are these standards above and beyond NERC standards? Karier asked. In some cases, they meet NERC standards and in others, they exceed them, replied Rust. He explained safety net programs, including Underfrequency Load Shedding, the Remedial Action Scheme, and local arrangements, such as the Puget Sound and Willamette Valley/Southwest Washington Study and Undervoltage Load Shedding scheme.

Rust turned to the question of whether a blackout like the East Coast experienced could happen here. Even with all the safety nets in place, you can “never say never,” he said. You cannot make the system 100 percent foolproof, Rust added. The question he wanted to leave the Council with was: “What level of reliability are customers willing to pay for? Is it 99.9 percent or 99.99 percent?”

Is that a question for customers or is that politically driven? Jim Kempton asked. That’s a good question, responded Rust. Utilities have cost-driven issues, and they push back pretty hard, he stated. It’s easy for an engineer to set a standard, and it’s hard to take all the other things into account, Rust said. These kinds of discussions are taking place now at the WECC, he added.

5. Presentation on Artificial Production Review Evaluation report

Bruce Suzumoto, manager, special projects; and Lars Mobernd, Mobernd Biometrics, Inc.

Staffer Bruce Suzumoto reported that the Artificial Production Review and Evaluation (APRE) Report is about done and that a draft will go out for public comment by the end of September. He said Congress asked the Council to evaluate and review artificial production programs in the Columbia Basin, and this report is the result of that request. Over the past year and a half, we’ve looked at over 100 hatcheries and several hundred artificial production programs, Suzumoto stated. Funded by Bonneville, the effort involved 17 agencies, as well as the tribes.

He recounted the objectives of the APRE and how the information in the report was put together. Lars Mobernd of Mobernd Biometrics, Inc., described APRE products, starting with the hatchery planning database. He said 505 fish stocks affected by hatchery programs were identified in the basin. The APRE database is web-based and includes hatchery program descriptions as well as over 200 variables. It looks at the “integration” of hatchery programs and covers all anadromous fish programs and 70 percent of resident fish programs.

Mobernd described how the APRE website is organized and the narrative reports on hatchery reform that have been produced. Among the conclusions of the APRE effort, he said, are that not all hatchery programs are consistent with the goals for affected stocks and that many hatchery programs do not meet key operational guidelines. In addition, according to Mobernd, few hatchery programs are monitored, evaluated, and adjusted to succeed.

Danielson asked how serious and widespread is the problem that programs are not consistent with goals. There’s considerable room for improvement of these hatchery programs by having them more clearly focused on goals, replied Mobernd. Some hatcheries operate on the basis of mitigation agreements that may not match up with the goals for the stocks, he said.

Mobrand said the lack of monitoring and evaluation means that in many cases, we don't know how well hatchery programs are doing. Evaluation is the one single thing that needs attention, he stated.

Karier asked if they have catch information on the various stocks. Some programs have very good records, and some don't, replied Mobrand. Information exists within agencies, but it isn't always available to those who should have access to it, he added.

Suzumoto said the APRE had created a powerful and comprehensive database, which can generate answers to a variety of questions. As for next steps, we will complete the report and send it to Congress, and we also plan to prepare an issue paper aimed at developing a strategic plan for hatchery reform in the basin, he indicated.

The question is, what is the Council going to do with this report? said Cassidy. We should try to implement it and "not let it gather dust on some shelf," he added. We can use it for our discussion of the Northeast Oregon Hatchery next month, said Danielson. We need to determine how the APRE, the BiOp, and the BiOp remand fit together, she added. We'll be coming back to discuss the next steps and what needs to be covered in the report to Congress, Marker told the Council. The APRE will feed into the subbasin planning process, and we need to discuss the leadership the Council will exercise and how we will frame the issues for the region, he said.

6. Briefing from the Bonneville Power Administration on its financial condition

Jim Curtis, chief financial officer, Bonneville Power Administration.

I have better news to share with you today about Bonneville's financial condition, "with a little note of caution," Bonneville's chief financial officer Jim Curtis told the Council. Reporting on Bonneville's third quarter, he said the agency earned \$49 million, "as opposed to losing hundreds of millions, as we did in previous years." At the end of the year, Bonneville expects to book \$556.3 million in net revenues, as a result of expense reductions from refinancing Energy Northwest debt, according to Curtis.

Danielson asked about the effect of fish and wildlife cost underruns. I expect if they occur, they may be offset by lower secondary revenues, Curtis responded. June, July, and August have been very dry and that may depress secondary revenues, he noted.

Curtis went over the cash tools and deferrals Bonneville used during Fiscal Year 2003 that increased end-of-year financial reserves by \$199 million. Since these actions are all associated with some future obligation, the cautionary part of the good news is that "we may look a little more flush than we are," he said.

Curtis listed five tools or deferrals:

- \$82 million in Energy Northwest Reserve fund free-ups
- \$55 million from the Residential Exchange deferral
- \$22 million from a Bank of America settlement with Energy Northwest
- \$28 million from the Fiscal Year 2003 Slice true-up

- \$12 million from the Enron settlement.

Of the Slice true-up, he said, we thought the Slice customers would owe us \$17 million, but we think we'll owe them \$28 million so that's a future obligation. Is the \$28 million obligation agreed upon, or is there slippage possible? Eden asked. There is slippage possible, replied Curtis. The Slice customers won't do their 2003 audit until next year, he noted.

Curtis went over some negative trends, including falling natural gas prices and the possibility of lower than expected secondary revenues for Fiscal Year 2004 due to dry weather. The current revenue target is \$620 million, which is higher than we've ever gotten, he said. Curtis also noted the \$84 million the Slice customers think Bonneville owes them from the 2002 Slice true-up. Is it Bonneville's opinion that that number is really zero? Eden asked. It's very close to zero, replied Curtis, adding that Bonneville is disputing 10 issues with the Slice customers.

Curtis also pointed out that \$180 million of Bonneville's Fiscal Year 2003 reserves are from fish credits that may not be available in future years. On the positive trend list, he put Bonneville's successful cost-cutting to get internal expenses back to Fiscal Year 2001 levels, and the Federal Energy Regulatory Commission's motion to dismiss Bonneville from a show cause order regarding market manipulation in 2001. Of the latter, Curtis said it is possible Bonneville might have to pay some money back.

Derfler asked how long the Residential Exchange deferral will last and what rate of interest is being paid to utilities. The deferral can continue as long as utilities are willing to do it, and the interest rate is "relatively low," around 5 to 6 percent, Curtis replied.

He went over a future rate chart, indicating that the expected power rate adjustment with the SN CRAC would average 3.5 percent over Fiscal Year 2004-06. With settlement of the residential exchange litigation, it would average -4.9 percent, Curtis pointed out.

With respect to Bonneville's capital outlook, Curtis told the Council the agency will have borrowing authority through late 2007, and if Bonneville proceeds with debt optimization, "we think we'll have sufficient borrowing authority through the decade." He said Bonneville is looking to third-party financing for some transmission needs.

There may be an opportunity to get some additional borrowing authority in the wake of the East Coast blackout, suggested Hines. The blackout brought some credit to the West Coast for how we do things, said Curtis. We think the \$700 million in borrowing authority that we got last year will be sufficient through the decade, if we have debt optimization, he stated. We think, and the Department of Energy thinks, we can live with what we have, Curtis added. We're glad to see things are looking better, said Danielson.

7. Report on progress of mainstem implementation plan

Doug Marker; John Shurts, general counsel; and Bruce Suzumoto.

Staffer Doug Marker presented a matrix of tasks required to implement the actions called for in the Council's mainstem amendments to its fish and wildlife (fish and wildlife) program. The

matrix shows whether each task is completed, under way, or not getting done. There's only a short time to do what needs to be done to implement these measures in 2004, and the tasks ranked "level 3" in the matrix are the ones that need the highest level of Council effort, he said. Summer spill tests at non-transport sites fall in that category, Marker noted.

We met last Friday with Bonneville, NOAA Fisheries, the Corps, the states, and the Columbia Basin Fish and Wildlife Authority (CBFWA) to try to focus on the timeline needed to implement a broad-scale summer spill test in 2004 and operational changes at Libby and Hungry Horse during the summer, Marker reported. Our goal is to stay on top of all the important 2004 decision points, and the shortest timeline is for the spill evaluation tests because PIT-tags would need to be set up this fall, he said.

We are trying to "feel our way through this," to figure out when we need to have the Council as a whole engage on a decision, and how we can use the Independent Scientific Advisory Board (ISAB) to add credibility to the process, Marker explained. Next month, we'll bring you a proposal on how to make progress on the 2004 summer spill evaluation, he said.

There's "a huge amount of attention" on spill questions as a result of the operations this past summer, he continued. People are focused on the issue, and now it's a question of how you get the experiments set up, Marker said. The debate will take place in the next couple of months, and we'll report frequently to you about what's going on, he told the Council.

Where do the states and tribes play a role in the summer spill test deliberations? Larry Cassidy asked. Through the Implementation Team (IT) and the System Configuration Team (SCT), Marker replied.

Tom Karier recommended that the discussions with the Corps also focus on "evaluating turbine passage" to determine the optimum fish survival through the turbines. We don't know what optimum turbine operations are, and we need to do the tests, he said. There is some work being done on that, including a discussion about the turbines at McNary Dam and the optimum amount of flow, but we could weigh in more on the issue, said staffer Bruce Suzumoto. Why not test one turbine at each of the mainstem dams? Karier suggested.

Can we make a recommendation to the Corps on its research program as a whole? Karier asked. We have the ISAB reviewing the Corps' research program, Marker replied. The SCT works on these issues – the question is how the Council can engage on a broader scale, and the answer is that the Council should do that this fall, he said.

The decision-making schedule is fairly soon, and I don't want the Council to impede or delay that, stated John Hines. We need to make clear how this is going to go forward, he added. It's complex because this is a research program we are not usually involved in, but the Corps has been helpful as we've made our inquiries, said Marker. "We are trying to figure out where we need to show up with what when," he summarized.

We need to establish our priorities, said Gene Derfler. I appreciate your keeping this in front of us, Chair Judi Danielson told staff. "This could drop through the cracks if we're not careful," she added.

8. Presentation by Columbia Basin Fish and Wildlife Authority on MOA

Rod Sando, executive director, CBFWA; and others.

CBFWA Director Rod Sando brought a panel to talk about the MOA. Roy Sampsel, consultant on behalf of the Columbia River Inter-Tribal Fish Commission (CRITFC), said the MOA will be a major subject at CRITFC's retreat next week. Among the questions that will be discussed, he indicated, are if there is to be an MOA, who will sign and participate, and "what happened with the previous MOA and what didn't happen with it." I expect substantive recommendations to come out of the retreat, Sampsel stated.

The Umatilla and Warm Springs tribes have said they want to have thorough discussions about the MOA within their tribal governments, he noted. According to Sampsel, another question is, will a long-term MOA address appropriated dollars as well as Bonneville dollars?

How could a long-term MOA obligate Congressional dollars? Karier asked. You can't obligate appropriations, but you can enter into a discussion of planning processes, Sampsel replied. You could say, for example, "we anticipate this level of implementation, e.g., \$100 million over the next decade," he said. You could set a priority, such as 30 percent culvert replacement in a certain number of watersheds over the next decade, Sampsel suggested. That provides a path, and I think the Office of Management and Budget and the Council on Environmental Quality would be interested in that, he said.

Mary Verner, executive director of Upper Columbia United Tribes, said the UCUTs want to see the MOA be broader in scope than what is currently being talked about. We need to decide who will be the parties to it – the managers were "noticeably absent" from the last MOA, she noted. In fact, the tribes heard about the last MOA "after it was a done deal," Verner said. We need some "rules of engagement" for developing the MOA this time, she suggested.

We need to get started now; otherwise, we'll end up doing "adaptive management by rate case," and that's no way to do fish and wildlife budgeting, according to Verner. We need to identify what is Bonneville's obligation and what is the obligation of taxpayers, she said. We want to participate and help shape the MOA, Verner concluded.

Joe Peone of the Colville Tribes told the Council there needs to be a short-term MOA to cover the end of the rate period, as well as a long-term MOA. The MOA needs to provide certainty that "there's a set of dollars that we know is there," he said. We can take what was learned from the last MOA and "do better this time around," Peone stated. The MOA is extremely important, and the tribes need to be signatories, he said.

We need a new MOA to provide budget predictability over a defined time period and so we can have a comprehensive budget for both listed and non-listed fish, according to Dave Statler of the Nez Perce Tribe. The MOA has to recognize tribal sovereignty and involve the appropriate consultation, he stated. The tribes need to be full participants in developing it, Statler said. If there is no MOA, Bonneville will have too much budgetary discretion, and that situation "can favor the power side over fish and wildlife," he stated.

The Nez Perce believe that the dam-breaching option must remain on the table, Statler said. The timing of the MOA must be consistent with the next Bonneville rate case, he added.

Summing up, Sando said the panel's remarks highlight the "intense concern" people have about the MOA. It's important for us to be collaborative, and CBFWA is prepared to assist the Council, he stated.

I read the letter to the Council from the governors as a directive to us to make this a coordinated effort, responded Danielson. The concept of the MOA is very important, and the points you made about the need to provide stability all ring true, said Karier. It's a matter of getting this up and running, he added.

Since the next rate case is in 2007, will it take us that long to negotiate something like this? Karier asked. There isn't a schedule for the next rate case, responded Marker. Our efforts in the short term have focused on fish and wildlife funding protocols to restore planning stability and establish budget rules we can build on for the future, he said. A Bonneville representative told the Council that the 2007 rate case would begin in the summer of 2005, and that's when the budget numbers would be needed.

9. Update on revision of regional power plan

Dick Watson, director, power division.

The Council's fifth Power Plan is an opportunity to address important policy issues facing the region's power system, said staffer Dick Watson. It will address a key issue from the 2000-01 experience – "making the reality of a mix of regulated retail service and a competitive wholesale market work efficiently, effectively, and equitably," he suggested. It will also provide insights into how to better manage risk through resource choices, according to Watson.

He said the plan must assess the cost of mitigating risk. While early power plans focused on financial risks associated with capital-intensive, long lead-time resources, we now face an environment of uncertainty and volatility about a lot of things, Watson explained. These include future loads and fuel and market prices; policies, such as CO₂ regulation; and technology; as well as the correlations among all of these, he said.

The Council's objective in the plan is to identify the lowest cost/acceptable risk resource portfolios and provide a risk analysis tool that is scalable to individual utility situations, Watson stated. He explained how the Council evaluates resource portfolios by testing hundreds of possible futures and using the performance metrics of expected cost, risk, reliability, and emissions.

The Council is using a new model that staff built from scratch named "Olivia," which is a "risk-constrained portfolio analysis," Watson said. We'll be using it to test portfolios over the next several months, he stated.

The issue analysis part of the Plan involves work on incentives and information requirements for resource adequacy, a demand response issue paper, strategies for investment in efficiency, and a transmission issue paper, Watson said. We will do an initial assessment of the power impacts of spill combined with a fish survival analysis, and we will look at climate change issues, as well as recommendations for the future role of Bonneville, he noted. Watson told the Council to expect

“intensive engagement” with Power Plan issues between October and January, with a draft plan expected out next winter.

Cassidy questioned Watson’s statement about “making the reality of a mix of regulated retail service and a competitive wholesale market work efficiently, effectively, and equitably.” My business experience says that won’t work, Cassidy stated. We will have a mixed solution over the next few years, responded Watson, adding “you can’t push the toothpaste back into the tube.” You need a market to be able to take advantage of things like the seasonal diversity between the Northwest and Southwest, but at this point we haven’t determined the best rules to make it all work, he stated.

There are varying levels of confidence about whether we can develop those rules, observed Karier. We’ve seen in our models that a competitive market can provide inadequate reliability, and that’s why there are discussions of public policies to change that, he said. We don’t know the best way to define the market, Karier added.

Besides addressing the role of Bonneville, the Power Plan needs to discuss the future role that the Council will play in the region’s activities, such as Bonneville’s contract process and cost control, said Kempton. We need to bring that out more in the plan, he added.

10. Update on Governors’ report

Dick Watson; Doug Marker.

The four governors recommended that the Council reinstate the regional dialogue on the future role of Bonneville, and to that end, Watson reported that the Council and Bonneville have been conducting a series of consultations with utilities, opinion leaders, regulators, and representatives of environmental groups. We are talking about how “to move the ball forward” from where we left it last winter, he stated.

The “most positive observation” we’ve heard so far is that the basic model of the joint customer proposal is “alive and well,” according to Watson. That’s the core idea for the future role of Bonneville, and it continues to resonate with customers, he said.

There are, however, significant issues to be overcome to get there, Watson noted. We need a solution to the residential exchange litigation, he said. The IOUs don’t want to sign a settlement agreement that could expose them to the potential threat of legal action so they need every public utility to sign off on the agreement, and there continue to be one or more holdouts, Watson stated, adding “it’s not clear what the Council can do about that.”

There’s also the question of a longer-term settlement of the exchange benefits allocation issue, and whether that should be done through dollars or power, he said. Working out a model for this is doable, Watson opined.

Another “very sticky” issue is Bonneville cost control, he told the Council. Absent the leverage of taking load off Bonneville, customers say they need a cost control mechanism, Watson pointed out. There is a Customer Collaborative working with Bonneville on cost oversight, and maybe that will have some results, he said. This is “a huge issue,” and one that the Council may be able to weigh in on, Watson stated.

“Almost universally,” we’ve heard that the fact the governors and the Council are taking the initiative on these issues is appreciated, he said. The consultations have been quite interesting, commented Danielson. I hope Bonneville is listening carefully to them because it has some “relationship issues” it needs to attend to, said Watson.

Fish Work Going Swimmingly

There’s a lot of progress to report on the fish and wildlife-related recommendations of the governors, said Marker. With respect to the integration of the Biological Opinion (BiOp) with subbasin planning, we’ve had good cooperation from NOAA Fisheries and the U.S. Fish and Wildlife Service, he reported. There are some uncertainties related to the BiOp remand, Marker acknowledged. We hope the action agencies don’t launch a new set of offsite mitigation activities and that instead they will support subbasin planning, he said.

I’m pleased with the progress that has been made on the recommendation for the Council to work with federal and tribal managers to integrate monitoring in the region and complete a system-wide research plan by the end of the year, Marker stated. Staffer Steve Waste has built quite a network, and he’s trying to get tribes more involved, Marker said. Integration has greatly improved, he added.

Is the research plan being held up by the federal agencies? Karier asked. We are waiting for the NOAA Fisheries Northwest Science Center to share its comments on an integrated plan, and the other issue is funding for the research plan, replied Marker. They are the two hurdles to getting the plan done by December 31, he said.

The governors recommended that a new fish and wildlife funding agreement be in place beginning this October. Marker noted that Bonneville and Council are completing an agreement for stable program funding for 2004-2006 that will include accounting protocols. This work could be the foundation for a long-term fish and wildlife agreement that will cover the 2007-2012 period, he suggested.

Bartlett confessed to a “nagging concern” that short-term fish and wildlife funding may not be adequate and less than what the governors expect. You approved a fish and wildlife expense budget yesterday that allows us to catch up and provides some flexibility, but capital does remain an issue, responded Marker. We’re working on a set of protocols for capital, he noted. I’m concerned about funding for land acquisitions and whether enough dollars are available for subbasin planning, Marker stated. I don’t want to lose the momentum of the subbasin planners, he added.

Bartlett said the Council “doesn’t intend to let the ball drop” on any of the governors’ recommendations. He suggested the Council provide a progress report to the governors in October.

11. Briefing on Washington energy strategy process

Howard Schwartz, Ph.D., senior energy policy specialist, Washington Dept of Commerce, Trade and Economic Development.

Howard Schwartz of the Energy Policy Division of the Washington Dept. of Community, Trade and Economic Development presented the state's 2003 Energy Strategy Update, "Responding to the New Electricity Landscape." He said the state decided last year to revise the electricity portions of its 1993 energy strategy because of the dramatic changes in the industry, and because the "perfect storm" west coast electricity crisis of 2000-01 "revealed great weaknesses in how the industry is structured and governed."

Schwartz pointed out that Washington is among three public power-majority states in the country, and the only public power-majority state where hydroelectricity supplies most of its power. Hydro serves about 60 percent of the load, and Bonneville supplies about half of the state's power, he noted. Bonneville owns 80 percent of the transmission in Washington, Schwartz said.

In other states, electricity policy means IOU oversight, but in Washington, electricity policy means "endless bargaining among electric utilities," he told the Council. The people who helped devise the new report used the phrase "rugby scrum" to describe what goes on, Schwartz said, adding that policy-wise, "carrying anything downfield is extremely hard."

While RTOs may make sense for other states, our feeling is that "they make less sense for Washington," he reported. Bonneville functions as the RTO for us, and "it's worked out fine," according to Schwartz.

He explained the 13 guiding principles contained in the strategy, which was sent to the state legislature this year. According to Schwartz, the principles, taken together, "firmly commit Washington to continue a traditional regulated monopoly electricity system and to seek solutions to current problems within that framework." We want to harness market forces when they are helpful, but they should not be the dominant driver, he said.

Public meetings on the energy strategy, aimed at developing specific proposals to turn the principles into actions, will take place this fall, Schwartz noted. We'll continue to work closely with the Council, he said.

12. Council business

a. Adoption of minutes

Karier moved that the Council approve the minutes for the August 12-13, 2003 meeting. Derfler seconded, and the motion passed unanimously.

b. Amendment to Idaho Fish and Game subbasin contract

Staffer Lynn Palensky presented a subbasin planning contract amendment for Council approval. She said the request is for an additional \$80,000 to enable the Idaho Dept. of Fish and Game

(IDFG) to complete its assessment and inventory work in the Salmon Subbasin. It would take the total contract to \$180,000, she noted, adding that “this is a large and important subbasin.”

Kempton moved that the Council authorize the Executive Director to negotiate an amendment to the Salmon Subbasin Assessment Contract, PTII05, with the IDFG in an amount not to exceed \$80,000. Eden seconded, and the motion passed unanimously.

Public Comment

Lee Bernheisel of the Okanogan Wildlife League said he was there to give the Council “one last chance to do something for fish” with respect to the Methow Valley Irrigation District (MVID) Rehabilitation Project’s plan to construct fish screens. He said there have been record low flows in the Twisp and Methow rivers and that the MVID uses more water than it needs and dewateres the Twisp River. The screening project approved by the Council does nothing to improve instream flows, according to Bernheisel. The construction project is “a freight train we can’t seem to stop,” he said.

Tom Karier and I are working hard on the issue of whether these screens are a viable investment, Cassidy told Bernheisel. We don’t consider it a done deal until we get it resolved, he said. The water issues you describe have not been resolved, and screening is an interim step, Cassidy stated. We’re not just pushing this through, he added.

We don’t want to have to take this to litigation, said Bernheisel. I’m not saying the Council will rescind the decision we made, but we are going to look into the matter, Cassidy said. We’re as concerned about the issues you raised as you are, he said. Stay tuned with us, Cassidy advised.

Approved October 15, 2003

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Vice Chairman

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