Northwest Power and Conservation Council

Council Meeting
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Minutes

1. Briefing from the Bonneville Power Administration on its financial condition:
Jim Curtis, chief financial officer, Bonneville Power Administration.

Jim Curtis, Bonneville's chief financial officer, addressed net revenue projections, cost-recovery adjustment clause (CRAC) triggers, cash condition, and borrowing authority in his presentation to the Council. He noted that net revenue estimates were made before the agency undertook debt optimization in Fiscal Year (FY) 2003. The debt optimization entails refinancing Energy Northwest (ENW) bonds and using the proceeds to repay U. S. Treasury debt, Curtis explained.

Gene Derfler asked how refinancing the ENW bonds affects the liability of ENW utility participants. Curtis replied that the payment structure, including the priority of payment set out in the net-billing and bondholder agreements, protects the participants. Derfler said he had heard concerns that Bonneville undertook debt optimization without adequately consulting project participants. We worked with the ENW executive board to structure the debt optimization program, Curtis responded. He said when the executive board became aware of participant concerns, it took steps to address them.

While Bonneville ended FY 2003 with $511 million in reserves and $555.4 million in net revenue, these results are not as positive as they would seem, Curtis continued. The results reflect the impact of debt optimization, and without that program, "it wasn't a great year," he stated. When our results were adjusted for debt optimization and $70 million in fish-cost contingency fund credits, modified net revenue was $36.9 million, Curtis said.

Net revenues and cash have fluctuated some in the first quarter of FY 2004, but there has not been much change since we set the Safety Net (SN) CRAC, he said. And although revenues are slightly lower in the current forecast, cost reductions and management actions have offset the decrease, Curtis added.

He went through several financial tables, including projected revenues and expenses for 2004. We expected about $3.5 billion in revenues, but we're now projecting about $3.3 billion, Curtis explained. As for expenses, we have lowered projects for the Power Business Line by about $40 million and for the Transmission Business Line (TBL) by about $20 million, he said. An additional $235 million in decreased expense is due to debt optimization, Curtis pointed out. The forecast for the first quarter of FY 2004 still shows us losing $481 million over the rate period, he said.

John Hines asked about the effect of the higher net revenues and reserves on Bonneville's Treasury payment probability. Our payment probability is still good – probably well over 90 percent – if we get sufficient water, Curtis responded. But there is still a plus-or-minus $100 million question on secondary revenues, he added.

Curtis explained a graph of Bonneville's year-end financial reserves, beginning in 2000. He detailed how reserves dropped from $811 million in 2000, "the highest since I've been at Bonneville," to $188 million in 2002. We started 2003 at $511 million, better than projected in the August SN CRAC rate case, and the current projection for 2004 is $498 million, up from earlier projections because TBL was prepaid for some fiber contracts, Curtis said. By the end of the rate period in 2006, we estimate reserves will be at $328 million, and "we're right on track to be there," he stated.

As for Bonneville's borrowing authority, without debt optimization, we would expect it to be depleted by 2008, Curtis explained. He noted that Bonneville committed to use debt optimization only if it does not raise rates and that the ENW bonds must be paid in full by 2018. The effect of using proceeds from refinancing ENW bonds to pay for long-term capital projects could lead to increased rates, Curtis pointed out. In order to meet the commitment on rates, we'll need to limit debt optimization to $2.7 billion, rather than the $3.2 billion we anticipated earlier, he concluded.

Larry Cassidy said the Council has found an accounting "nightmare" in Bonneville's fish and wildlife program. We have bills coming in from as far back as 2000, he pointed out. As Bonneville's CFO, can you be sure there aren't other areas of Bonneville where there are problems of this magnitude? Cassidy asked.

Curtis responded that the fish and wildlife program has been hiring personnel from his financial management staff and that systems are being put into place that will correct accounting problems. We are working to get fish and wildlife accounting up to the level of that in other programs within Bonneville, he said.

The Bonneville administrator asked us to reduce our budget, and we've spent a year doing that, Council chair Judi Danielson told Curtis. But a lot of previously unknown liabilities are surfacing at Bonneville, and they are being reflected in the Council's direct fish and wildlife program budget, she indicated. We provide a budget, but we don't do the contracting and we don't write the checks – this situation is frustrating, Danielson said.

Curtis acknowledged that there is no extra revenue at Bonneville to cover the unanticipated expenses. But you would concede that we have met the budget and these other debts are out of our control? Danielson asked. I am not qualified to respond directly to that situation, Curtis replied. But our revenues are down, and we've fixed that problem with cost reductions, he said. There are no new monies for renewables, conservation, or internal spending, Curtis added.

You need to step in here – we need your help, Ed Bartlett urged. We are being told that capital rules and changes in the accounting methodology are causing these problems, he said. We need more flexibility at Bonneville to solve this, Bartlett stated. Can you help us resolve the capital funding issue? he asked.

We did change our rules last year to allow for the capitalization of land purchases for fish and wildlife mitigation, Curtis replied. There are rules on capitalization that were written as part of the rate case, and those rules have to be applied consistently, he said. There may be calls we can make "at the margins," but we have to be consistent, Curtis reiterated. He went on to state that Bonneville has been more flexible in its capitalization policy than other utilities and has applied Financial Accounting Standards Board guidelines more liberally.

We are not making progress on capitalization in the fish and wildlife program, and we need to make some headway, Bartlett stated. There are liabilities that have been created by the changes in accounting methodology and accruals from a number of years ago, he explained. We need your help in clearing them up, Bartlett said. You have my commitment to continue working with you, Curtis responded.

We are not asking for more money, we just want what was committed, Cassidy stated. He explained that Bonneville's new accounting system is moving unpaid liabilities from 2000 and 2001 into the current direct fish and wildlife program expenses. Pushing those liabilities into this period does not make sense, Cassidy said. You collected the revenue from your customers to pay those expenses in the past, but now it is coming from funds in the current period, he pointed out. The Council is operating within its budget, Cassidy stated. The thing you should worry about – that we all should worry about – is when these actions start hurting fish, it is a real danger for all of us, he said.

I hear you, Curtis responded. We will have lost $480 million in this rate period – we did not collect the revenue you are talking about, he said. The revenue we expected never showed up even during the prior rate case, Curtis added.

We refer to "limiting factors" when we talk about things that hold up salmon recovery, and I see accounting as a limiting factor here, Tom Karier said. We don't have the basic numbers or accounting right yet, so how can we implement recovery policy? he asked. We're just beginning to see that the new accounting rules have caused old expenses to be rebooked to come out of the current $139 million annual budget, Karier said.

Hines said he would like to have Curtis' assurance that the direct program can carry forward unexpended funds from one year to the next. I'd like to see an even greater allowance than Bonneville currently authorizes in this area, he said.

Is there a prohibition against setting aside an account for the direct fish and wildlife program that would get us out of this carryover problem? Melinda Eden asked. Curtis explained the limitations Bonneville has with creating "trusts" within its financial structure, including the effect it would have on priority of payment, obligations to bondholders, and third-party financing. Where is the fish and wildlife program in your priority of payments? Eden asked. It is up there with our own program expenses, Curtis replied.

A lot of people are spending time "nit-picking" a relatively small program, Eden commented. The resources to do that could be better spent on the ground for fish and wildlife projects, she said. The changes Bonneville has made to its capital and accounting processes have created confusion, and we can't predict whether projects will be considered capital or expense, Eden said. Can you make funds available to cover things we thought could be capitalized? she asked.

First, there is some miscommunication here about our capitalization rules, Curtis responded. They have become more, not less liberal, he said. We do not have to fund capital expenditures through debt, Curtis explained. We can raise rates, but that has a negative impact, too, he said. We'll lose nearly $500 million in this rate period – "we are all hurting," Curtis reiterated.

Kempton asked how Bonneville established its capitalization rules, and Curtis said it was through the rate case. Do you support opening up a rate case so we can work on these? Kempton asked. Curtis replied that a rate case is not the only way to work on Bonneville's financial policy. Now, "the way you work with us is to say no," Kempton commented. We have changed the rules at your request, Curtis responded. We are capitalizing resources way beyond what other utilities are doing, he stated. Kempton pointed out that Bonneville was providing only $7 million in land acquisitions for fish mitigation of the $35 million the Council identified, he said.

One of the issues with the capitalization standards is that you need to have a crediting system for salmon in place, but we haven't seen one yet, Karier said. Have you developed one or will you? he asked. We are working to come up with a crediting rule for salmon, Therese Lamb of Bonneville responded. We have a wildlife crediting scheme, and we have also come up with one for resident fish in Montana, she added. We advanced a proposal for salmon crediting last week, and we'll see where it goes, Lamb said. But we don't know exactly when it will be available, she acknowledged.

The Council is sensitive to the ratepayers, Danielson stated. We committed last year to reduce the fish and wildlife budget at the Administrator's request, she pointed out. But when we have old liabilities come in like they have, "it looks like the Council is budgeting like drunken sailors, and we're very sober," Danielson said. We've spent an inordinate amount of time working on these budgets, and yet when these liabilities pop up, it looks like an expense we incurred, she explained. That is unacceptable to us, Danielson stated.

Reports from Fish and Wildlife, Power and Public Affairs committee chairs:

Ed Bartlett, chair, fish and wildlife committee; Jim Kempton, chair, power committee; and Larry Cassidy, chair, public affairs committee.

Jim Kempton reported that the Power Committee had a briefing on regional Demand Response, a topic that will be part of the Fifth Power Plan. The staff went over the mechanisms and strategies that can be used to make consumers aware of the real-time price of power so they can modify their consumption in response, he explained. We also had a briefing on issues related to the future role of Bonneville, Kempton said, noting that some of the issues – durability, customer confidence, and types of contracts – have been around since the 1996 Comprehensive Review.

Staff made a presentation on Model Conservation Standards (MCS), he continued. Under the Northwest Power Act, MCS that capture all cost-effective conservation must be part of our power plan, Kempton explained. There are provisions in the Act for imposing a surcharge on Bonneville power if a utility does not meet the standards, he said. In preparing the power plan, we will need to deal with the MCS recommendations to include in the power plan and whether to impose the surcharge, Kempton stated. That should be an interesting discussion, he added.

Larry Cassidy pointed out that updating the MCS, which are ultimately reflected in changes to state and local building codes, would need to be "a huge discussion" within the region, involving numerous interests. Kempton noted that one of the factors affecting the cost-effectiveness analysis for conservation measures is the current low mortgage interest rates and resulting short payback period. John Hines said that in response to the Council's MCS, the four Northwest states adopted minimum-maximum standards that say local codes cannot be less than or greater than the MCS. "It would take a lot of leg work to implement something new," he added.

The MCS is one of the Council's early successes, Tom Karier commented. This is a heads-up that these issues are coming along, he said.

Ed Bartlett reported on what he noted might have been the longest Fish and Wildlife Committee meeting in the history of the Council. Staff presented a draft Artificial Production Review and Evaluation (APRE) issue paper, which he said would be available to the region by the end of April. We also got some instruction on Bonneville's contract management standards and a status report on subbasin planning, Bartlett said. May 28, the subbasin plan deadline, is fast approaching, he pointed out, and staff has been working out details of "the response loop" once the plans are reviewed by the ISRP. We are still targeting adoption of the subbasin plans in the December/January timeframe, Bartlett stated.

We discussed FY 2004 corrections to the direct fish and wildlife program budget, he said, noting that there was not consensus on the committee about how to handle the news that Bonneville has brought forward expenses, some of which date back several years, to be paid out of the current program budget. If we stay with the current budget of $154 million in 2004, there are impacts to the budgets for 2005 and 2006, Bartlett indicated. "We had more opinions than people in the room about what we should do," he reported. I felt from our discussion that the committee does not want to change the budget recommendation for 2004, but we didn't come up with a recommendation about what to do for the next couple of years, Bartlett stated.

The committee also got a report on the evolving budget for the Northeast Oregon hatchery; the status report on fish screens is not yet complete, so we will hear something on that at a later meeting, he concluded.

The Public Affairs Committee did not meet, according to Cassidy. He reported that the Council's new publications are getting good feedback, and committee members are now reviewing a video to be released later in the year.

Melinda Eden made a motion that the Council meet, at the call of the chair, in executive session to discuss matters protectible under the civil litigation exemption. Cassidy seconded the motion, which passed unanimously on a roll-call vote.

2. Council decision on revisions to Fiscal Year 2004 fish and wildlife implementation budget:

Patty O'Toole, program implementation manager; and Mark Fritsch, manager, project implementation.

Marker reported on efforts to close an approximately $40 million gap that has emerged in the fish and wildlife budget. The chasm was created by unpaid contract obligations that date back as far as 2000 and by expenses unrelated to projects the Council authorized, he explained. The fish and wildlife Committee sees the direct program "staggering" under the weight of trying to get the old bills and obligations paid and getting new projects funded, Marker said.

Lamb detailed Bonneville's dilemma in holding its average annual fish and wildlife spending to $139 million during the rate period. Over the last six months, anticipating that 2003 spending would come in $15 million under budget, we were managing the 2004 spending to $154 million, she said. When 2003 actuals came in above estimates, we decided not to decrease the 2004 budget and have been contracting at the higher level, Lamb indicated.

If we stay with the $154 million, it means we need to decrease budgets in future years, she said. Bonneville will soon be putting out its second quarter financial report, and we could use the $154 million figure for 2004 and $131 million for the rest of the rate period, Lamb said. The alternative is to adjust the 2004 budget downward, which means renegotiating contracts and potentially getting in the way of this year's work, she explained. We want advice on the best way to move forward – do we operate to $154 million or to $139 million this year? Lamb asked.

Derfler pointed out that the Council recommended spending reductions in 2003 that Bonneville did not follow. Cassidy said the higher than anticipated expenses in 2003 were from overspending and previously unbilled liabilities. It would create considerable disruption to go back to a $139 million budget for 2004, Bartlett commented. I don't think we can do that at this point, Danielson agreed.

There is another option, Eden suggested. I think there is money, without raising rates, for Bonneville to take responsibility for the changes in accounting it made in the middle of the rate period, she said. "Bonneville needs to step up to the plate and make up the difference here," so the region can move forward, Eden said. I know that you are now putting systems in place to avoid these problems in the future, but Bonneville is responsible for the position we are in now, "and Bonneville ought to fix it," she told Lamb.

Several factors have contributed to the difficulty, Lamb responded. We want a solution that does not affect the fish and wildlife program and does not raise rates, she said. We will work with you on this, Lamb stated.

Hines expressed concern about lowering the fish and wildlife budgets in 2005 and 2006, when subbasin planning is to be implemented. That's unacceptable, he said. The Council is dealing with a situation "that is not of its own making," Hines stated. He suggested that if spill is reduced on the Columbia River, another option would be to split the revenue gain among ratepayers, mitigation activities, and "a one-time true-up" of these past accounting problems in the fish and wildlife program.

We support exploring that conversation, Lamb replied. We should not just explore, “but do” what John is suggesting, Bartlett responded. I cannot agree with the numbers Bonneville is proposing for its financial report unless we resolve these issues, he said. Neither the fish and wildlife program, the Council, or the ratepayers caused this situation, nor should they be held responsible, Bartlett said.

There are “transition issues,” and they will take time to resolve, Lamb responded. That can be done apart from our public financial statements, she said. We could leave 2004 at $154 million and put the next two years at $131 million in our reports, with a note that we have outstanding issues to resolve with these figures, Lamb suggested.

If we give you “a head nod on the $131 million for 2005 and 2006,” we need guarantees that Bonneville’s quarterly report will explain this situation and say that if there are spill reductions, you will use some of the proceeds for a one-time true-up, Danielson said. I want to see it clearly acknowledged that the Council did not overbudget, she stated. I don’t see that Bonneville is asking the Council to accede to out-year budget figures, Ogan offered, and he advised the Council not to take any action that would do that.

In a sense, we are agreeing to the $131 million in 2005 and 2006 unless a revenue offset is found, Kempton pointed out. Let’s have a conversation about solving the transition issues without impacting ratepayers or harming the fish and wildlife program, Lamb responded. If there is no reduction in summer spill, we’d look at other options, she said.

I need to be clear about my flexibility here, Lamb continued. She indicated that she would take the recommendations back to Bonneville, but acknowledged she could not commit Bonneville to a particular path. We have two options, Lamb clarified: we can go with the $154 million in 2004 and $131 million in the out-years and work with the transition issues, or we can manage the 2004 budget to $139 million.

Staffer Patty O’Toole outlined 2004 budget corrections totaling $1.2 million to five fish and wildlife projects. She said the corrections are needed for the work to move forward. O’Toole described the changes, which include additions to budgets for Albeni Falls wildlife operations and maintenance (O&M); smolt monitoring, Lake Billy Shaw O&M; Yakima side channels; and data management. Marker noted that all five projects were approved in the provincial reviews.

Eden made a motion that the Council approve and forward to Bonneville, as recommended by the Fish and Wildlife Committee, the project budget corrections presented by staff for adjustments in an amount not to exceed $1,260.874. Cassidy seconded the motion, and it passed unanimously.

Karier clarified that the vote was not a commitment “on the larger issues.” I’d like to see more detail about where the project overspending has occurred, he said.

3. Briefing on the portfolio analysis for the Fifth Power Plan:

Dick Watson, director, power division; and Michael Schilmoeller, senior power systems analyst.

Staffer Michael Schilmoeller reviewed principles behind a risk-analysis model to be used in developing a resource portfolio for the Fifth Power Plan. He noted that the results from the model runs are starting to stabilize.

In developing the power plan, there is uncertainty associated with the behavior of key variables, he said: power requirements, natural gas price, hydro generation, electricity market price, aluminum price, carbon tax, and power plant availability. The plan makes specific recommendations with regard to the addition of new resources over the next 20 years, and the model helps us analyze a hypothetical plan compared to various futures, indicated. For the Fifth Power Plan, we are looking at the addition of capacity and the timing for several resources, he said, including single and combined-cycle combustion turbines, conservation, price-responsive demand, wind, and coal. Nuclear generation and new hydro are not on the list of resources being analyzed, Schilmoeller noted.

"As good strategic planners," we don't want to make decisions before we have to in order to have as much information as possible, he said. For that reason, the analysis focuses on the three to five-year action plan, Schilmoeller stated. Preparing a 20-year plan helps us to understand the strategic significance of our short-term actions; for example, we don't want to create long-term risk or preclude certain options due to actions we take in the near term, he explained.

Schilmoeller listed three recommendations, given "the way things are shaping up" in the modeling results. First, the model is pointing to the need for further study of the cost and potential for demand response (DR) in the region, he stated. Our preliminary studies suggest DR significantly reduces both future cost and risk, but we don't know much about it, Schilmoeller acknowledged. Second, the model is indicating there are benefits to the continued support of conservation, he said. Conservation additions at levels above those determined by market price reduce risk at little expected cost, according to the analysis. It looks like it would be beneficial to achieve conservation above what is induced by market forces, Schilmoeller stated. Third, the region appears to have sufficient conventional resources for the next four to five years, although the risk-management situation for individual utilities may be vastly different, he said.

With regard to the tradeoff between cost and risk, the curve that represents the spectrum of different choices, appears to be smaller than we expected, Schilmoeller continued. At the high end of the curve are resource plans with no short-term additions except market-driven conservation, and at the low end of the curve are plans with additional conservation and small amounts of wind and combustion turbine capacity in the short term, he explained. Our analysis shows the curve is shrinking, Schilmoeller said.

He outlined the circumstances behind the model results, including the relative surplus (about 1,000 megawatts, based on critical water) of resources in the region. In a period of surplus, wholesale markets are depressed, and the largest source of risk is overbuilding, Schilmoeller said. In the near term, the least-cost, least-risk approach is not to build anything, he explained.

DR, defined as voluntary load curtailment, offers an attractive possibility under today's circumstances, but our knowledge of DR is poor, Schilmoeller said. The immediate availability and low fixed costs make DR measures attractive, he said. All that is needed are staff and software to maintain contact with selected customers, Schilmoeller stated.

Preliminary recommendations for the action plan are to pursue research into DR and encourage conservation, Schilmoeller said. We will be examining what level of conservation to recommend, he told the Council.

4. Presentation on baseline electricity price forecast:

Jeff King, senior resource analyst.

Staffer Jeff King described how the Council's wholesale power price forecast is derived. The forecast is an estimate of future wholesale spot-market prices, he explained. The spot price is what would, for example, be traded on short-term contracts at the mid-Columbia trading hub, and we forecast that price on an hourly basis through 2025, according to King.

He showed graphs comparing three forecasts: the Council's adequacy and reliability study in 2000; the Fifth Power Plan preliminary draft in 2002; and the power plan final draft in 2004. The base case forecast for the final plan is $36.60 per MWh, down from $38 in the preliminary forecast, and up from $29.70 in 2000. The increase from 2000 is due largely to the price of natural gas, King said. He noted that while only about 15 percent of the power in the Northwest is generated using gas, the gas forecast has a great influence on electricity spot-market prices because it affects whether marginal plants will operate.

King explained how the electricity-market forecast is developed using the AURORA model. The base-case assumptions for the model, which were reviewed over the past 20 months by a number of entities, are a continuation of current economic and energy policy trends, or "what seems to be happening," he said. King acknowledged that the assumptions in the model may not fully consider the value of risk mitigation and may represent less than desirable reserve levels.

He listed the assumptions as: hydro conditions and fuel prices, resource additions and retirements, new resource options, technology and cost improvements, gradual enactment of a CO2 standard, continued federal incentives for wind and solar development, continued green-tag revenue for renewables, and limited penetration (20 percent of total capacity) by intermittent resources, such as wind and solar. The model comes up with the economically optimum solution, given the input data and assumptions, King said.

AURORA produces a resource portfolio for the Western Electricity Coordinating Council (WECC) area and for the Pacific Northwest from 2004 through 2025, he said. The dominance of hydro in the Northwest has a large effect on how the resource mix plays out here, King explained. The mix for the Pacific Northwest over the next 20 years includes some additions of coal and wind generation, but no CCCTs until the end of the period, he pointed out.

Does the model account for transmission? Hines asked. King acknowledged that the model does not do well in addressing the constraint transmission imposes on wind development in the region. In the modeling assumptions, we limited the amount of wind that can be developed in order to account for the lack of transmission, he explained. Most of the wind in the portfolio is in eastern Washington and eastern Oregon, King added. The model also makes use of non-firm transmission, Watson commented.

That's a huge problem in the model, Hines said. There is no way to move any wind power out of Montana now on a firm basis, and there is no way to finance development of wind resources without firm transmission, he stated. Until we incorporate transmission in the analysis, we only have part of the story, Karier observed.

This raises the question of whether the power plan should have a transmission component, Bartlett commented. There is "a great desire" to develop coal and wind resources in Montana, he stated. We have to look at transmission in order to make good policy decisions, Bartlett urged. There is some analysis we could do to cast light on the transmission issue, King responded.

On a graph of the monthly average Mid-Columbia prices and their relationship to loads, King pointed out that the seasonal peak for both is driven by air conditioning load in California and the Southwest. Power will be most valuable in the late summer months, which is when that load is high, he explained. King went on to detail various sensitivity analyses conducted on the model's assumptions, including: fuel price forecast, demand forecast, price caps, demand response, renewable incentives, and CO2 policy.

The base case assumes no price cap, although there is a WECC price cap of $250 per megawatt-hour (MWh), mandated by the Federal Energy Regulatory Commission, he said. In the sensitivity analysis of a price cap, the net effect is to reduce prices, but there is a tradeoff with reliability since fewer peaking plants would be built, King explained. The cap causes the reserve level to drop from 7.5 percent to 4.3 percent, he elaborated.

Karier suggested doing a sensitivity analysis on reserve levels since the base case assumes a level below the industry standard of about 15 percent. The model "does not behave well" with a reserve-level analysis, King responded. Reserve levels in the Northwest are typically 20 to 22 percent, he said. But couldn't the West-wide reserve situation affect us? Hines asked. Yes, King said, adding that he could work with the model to see about getting a better reserve-level analysis.

King said refinements and minor corrections over the past several months have not greatly altered the power market forecast. He outlined additional steps planned before a draft forecast is put out for public comment. Once the comments are in, we will rerun the forecast for the final plan and incorporate changes, King summed up, including adjustments for conservation potential, further risk and reliability analyses, adjustments for phasing out the federal tax incentive for wind development, and perhaps more transmission analyses.

5. Update on subbasin planning schedule:

Lynn Palensky, subbasin planning project manager; and John Ogan, senior counsel.

Staffer John Ogan briefed the Council on the progress of subbasin planning, noting that Council staff has been working with the state coordinators to develop a process to respond to the Independent Scientific Review Panel (ISRP) critiques and get draft plans into final form. We are putting together an action plan for getting all of the subbasin plans adopted in the fish and wildlife program, he said, adding that the workload will be immense and the timeframe short.

Kempton asked whether staff would have recommendations for the Council on how to handle policy versus science issues in adopting the plans. Ogan said staff would assess comments on the plans and highlight those that bear on "adoptability." Where there are clear lines between science and policy, we'll preserve the policy issues for the Council and identify critical science issues for subbasin planners to address, he continued. Ogan noted that the Clearwater subbasin has been an exception in the schedule, but that other plans are due May 28, with the ISRP review to be completed by August 12. After that, staff and state coordinators will break into teams for six or seven days to identify issues that impinge on adoptability, he explained.

I read the ISRP review of the Clearwater and am wondering "if we can ever get there," Cassidy commented. The plan has since been "tuned up," but the ISRP said it still has some problems, he pointed out. Given the ISRP review, I wonder if our message got through in the template, Cassidy said, indicating it may be "a stretch" for a local watershed group to get a subbasin plan to pass muster. If the same ISRP standards used in the Clearwater are applied to the other plans, it will be difficult to get any of them adopted, Kempton agreed. Karier suggested the information and issues raised in the ISRP review of the Clearwater be communicated to other subbasin planners.

Staffer Lynn Palensky said the work going on across the region "is phenomenal." Most planners are winding down their assessments and starting on the management plan, she noted, adding that plans from the Flathead and Kootenai will come in ahead of the deadline. Overall, we will probably come in under budget, and we are talking to Bonneville about extending our subbasin planning contract, Palensky said. She pointed out that all contracts with subbasins end May 28 and that state coordinator contracts have been extended through the end of the year.

Cassidy made a motion that the Council authorize the Executive Director to negotiate a contract amendment with Normandeau Associates, Inc. in an amount not to exceed $38,944 to complete additional subbasin planning coordination work in the Klickitat, White Salmon and Lower Middle Mainstem Columbia Subbasins. Karier seconded the motion, which passed unanimously.

6. Status report on long-term funding agreement:

John Ogan; and Doug Marker, director, fish and wildlife division;

Marker reported on progress toward a long-term agreement (LTA) on fish and wildlife funding. We are going to work with Bonneville to come up with the core costs of maintaining the direct fish and wildlife program and then will begin meeting with a larger group, including the resource managers and tribes, he indicated. Marker also said there would be discussions about tying performance objectives to various levels of funding. We have divided the responsibilities among staff, and now we have to set up the meetings, he stated.

Paul Lumley, CRITFC, presented nine principles developed by the 13 Columbia River Basin tribes. Among the principles, the tribes want to get to an agreement by June 2004, and they intend to be signers, he stated. Lumley said the Columbia Basin tribes support a resolution passed by ATNI that calls for transferring Bonneville's fish and wildlife funding authority to another entity, one that maintains the federal trust responsibility to the tribes. The lack of accountability has frustrated the tribes and the Council, he said. The fund has been mismanaged and while things have improved, they could change again, Lumley pointed out. If Bonneville fails to meet its obligation, we want the fund to be transferred to an entity that will meet it, he stated.

We support a stable funding mechanism that places Bonneville's financial risk on the hydrosystem, not the fish and wildlife program, Lumley continued. In his letter last fall, Steve Wright said he wanted the fish and wildlife fund to go up and down, depending on Bonneville's financial situation, he indicated. I'm skeptical of that approach – Bonneville never says it is in good financial health, and I don't think we'd get a clear picture of the situation, Lumley stated.

Mary Verner, Upper Columbia United Tribes, said the principles Lumley presented were approved by ATNI and by the tribes' national congress. We should have started working on this agreement months ago, and we would ask the Council to release staff to begin work immediately, she urged, adding that Bonneville also needs to be at the table. The region needs funding certainty, Verner stated. She cautioned against trying to define Bonneville's total obligation as part of the agreement. Perhaps we could define a methodology for getting to that obligation later, Verner said. The agreement needs to include rules for budget management, and it must be consistent across Bonneville Administrators and honored by all, she concluded.

The customers' consideration of a long-term agreement "is in its infancy," but this is my perception of what the utility community is thinking, Shauna McReynolds of PNUCC said as a preface to her comments. I want to reiterate the customers' belief that the Council's fish and wildlife program is very important, and that they are committed to funding the enhancement, mitigation, and protection of resources through that program, she said.

The direct fish and wildlife program is a major piece of the $600 million total Bonneville spends on fish and wildlife each year, McReynolds said. Bonneville's fish and wildlife expenditures have grown significantly over the past 20 years, and it is more important than ever to assure we are doing things that give a measurable result and provide value for our money, she continued. For years, PNUCC's salmon strategy has promoted efficient and effective regional solutions for fish recovery, McReynolds stated. We want to see clear and consistent goals based on unbiased science and achieved with cost-effective actions, she said. Simply spending money is not a good enough measure of our progress toward fish recovery, McReynolds stated.

We have concerns about a long-term agreement, but if we are going in that direction, we want to be involved, she told the Council. We have many issues we feel need to be addressed as this process moves forward, McReynolds said. Bonneville's obligation for funding fish and wildlife recovery needs to be clearly defined, she stated. While I support subbasin plans, I am nervous that because the Council is developing them, there is an assumption that Bonneville will fund them all, and "that is not reasonable," McReynolds said. We need to pick a point in time to get to an attainable goal – not just an amount of money, but a biological goal, she urged.

McReynolds listed other questions, including: Who will sign an agreement? Is a long-term agreement the best way to get stable fish and wildlife funding and stable power rates? And how would a long-term agreement benefit ratepayers? I think we have to tie fish and wildlife spending to Bonneville's financial condition, she said. "If we take Bonneville down," it won't be around to do anything for fish and wildlife, McReynolds added.

The bottom line for us is that the Council needs to work at the policy level, she summed up. McReynolds pointed out that a great deal of attention has been paid to accounting details over the past year. The Council needs to move beyond that and stay focused on policy issues "that create a stable, adaptive program with consistent goals, objective peer-reviewed science, excellent tracking, and cost-effective actions," she concluded.

Amos First-Raised, Burns-Paiute Tribe, said the region needs a long-term agreement. The agreement would be a tool to educate the ratepayers about the needs of fish and wildlife, he said. It should encompass the interests of everyone in the basin in such a way that efforts throughout the basin complement each other, First-Raised stated.

I am a strong supporter of the region doing a long-term agreement, Bartlett stated. The fact that we once had an MOA and now we don't has shown us the importance of having one, he said. Your cautionary statements are important, Bartlett told McReynolds, but a long-term agreement is also important and beneficial.

We have invested endless staff time in solving financial problems related to the fish and wildlife program, Karier said. It's important to have an MOA so "we have the rules of the road," he stated. One of the greatest ways to assure customers of predictability with fish and wildlife costs is with an MOA, Karier said. There are opportunities to deal with the issues you raised, he added. We shouldn't just focus on a dollar number, but on accountability, Karier said.

I am not here to oppose an MOA, but we have a lot of questions, McReynolds responded. The lack of an MOA is not the only thing that has changed with regard to fish and wildlife funding, she pointed out. Bonneville's rates have gone up significantly, McReynolds said.

I think it is proper for utilities to want results from the dollars spent, Cassidy said. But if we come up with an MOA on spending for five years, it does not even cover the life cycle of a spring chinook, he said. We need to think about what we are doing today that will sustain the runs for the next 50 to 100 years, Cassidy stated.

I'd ask that all of you work in good faith on this, Danielson counseled. I've asked that we do "the heavy lifting" by June if possible, she said. I'd urge you to take a broad view of Bonneville's fish and wildlife spending, not just the direct program, but the hydro operations as well, Hines advised.

7. Status of summer spill operation decisions and Libby/Hungry Horse decisions:

Doug Marker; and Bruce Suzumoto, manager, special projects.

Staffer Doug Marker recapped discussions under way on the implementation of summer spill experiments in 2004. The federal agencies have extended the comment period on their analysis of summer spill, and the Regional Executives and governors' representatives will meet March 29 to discuss 2004 operations, he reported. The discussion of potential offsets to spill is continuing, and we expect it will also be on the agenda for March 29, Marker said. He recommended the Council see if its recommendations for 2004 Hungry Horse and Libby operations could be put on the executives' March 29 agenda.

Danielson wondered whether the Council's mainstem recommendations on spill could be implemented if key players don't weigh in until March 29. Bartlett suggested the Council send a letter to the federal executives asking for a decision by the end of March.

The list of mitigation offsets to spill reduction "isn't very good," Cassidy commented. The federal executives have to do better than this – we need direct mitigation for the fish that would be lost, he stated.

I was disappointed to see the tribal membership jumping out in front of this with their resolution, Danielson said, referring to a resolution the Affiliated Tribes of Northwest Indians (ATNI) adopted. In the resolution, ATNI supports "implementation of the summer spill program to pass anadromous fish" at mainstem dams.

The Columbia Basin Fish and Wildlife Authority (CBFWA) is facilitating a forum on summer spill that includes CRITFC, federal and state agencies, and others, according to CBFWA director Rod Sando. He noted that the *U.S. v. Oregon* lawsuit negotiations are a factor to consider with regard to impacts on non-listed fish.

8. Report on monitoring and evaluation plan:

Dr. Richard Williams, Chair; and Dr. Nancy Huntly, Independent Scientific Review Panel.

Dr. Nancy Huntly briefed the Council on the joint Independent Scientific Review Panel/Independent Scientific Advisory Board review of the NOAA Fisheries research, monitoring and evaluation (RME) proposal for the region. She said the issues raised in the review fall into two general categories: coordination/integration and experimental design/sampling.

With regard to the first category, Huntly said the proposal should more overtly develop how coordination would take place, both within and outside NOAA Fisheries. The experimental design presents "the most challenging issues intellectually," and the proposal doesn't give details about what samples are needed and why, she continued. The reviewers also thought the proposal could be more ambitious with regard to what the proposed pilot projects could achieve, Huntly reported.

Overall the draft plan has many strengths and is "a good effort," she said. As for weaknesses, it needs to spell out more about coordination and design, Huntly indicated. We recommend that NOAA Fisheries strengthen the coordination/integration, fill in the details on experimental design, gear the plan to meet the basic objectives of the biological opinion, develop a phased implementation plan, and set specific priorities, she said. The reviewers also had recommendations with regard to data management, including taking advantage of existing data centers and assuring data is collected that provides the essentials for a good database, Huntly said.

9. Status and update on the regional water outlook:

John Fazio, senior power systems analyst.

As of February 9, the January-July runoff forecast for The Dalles Dam is 100 million acre-feet (MAF) or 93 percent of normal, staffer John Fazio told the Council. Precipitation above The Dalles as of the end of January is 97 percent of normal, he said. The runoff forecast is well above the drought year of 2001, when it was close to the 50-year low, but not nearly as high as 1997, when the forecast exceeded the 50-year high, Fazio pointed out.

The forecast for generation associated with the runoff is 13,700 average megawatts (aMW), he continued, noting that there is a considerable range of uncertainty about that figure. While there is good correlation between runoff and generation, the possible range of generation associated with 100 MAF of runoff extends from a low of 11,000 aMW to a high of 16,900 aMW, Fazio said.

He presented a table on reservoir status as of February 9 that shows Grand Coulee and Hungry Horse at 70 percent full, Libby at 53 percent, and Dworshak at 33 percent. At this time of year reservoirs are drafted for energy production and evacuated for flood control, Fazio said. When the current reservoir elevations are compared to the critical year of 1937, "my conclusion is that they are in pretty good shape," he reported.

The Northwest loads and resource forecast shows we are about 1,000 MW surplus until 2011 or 2012, based on medium growth, Fazio said. But, he noted, there is great uncertainty about the load/resource balance. If the economy booms and we get into a high load- growth scenario, the surplus could disappear within a year, Fazio said. The California Energy Commission indicates there is a winter capacity surplus in California out to 2008, and that could be tapped to serve Northwest load, he said.

Overall, our water supply is about average, we're about 1,000 MW surplus, the California capacity surplus seems ample, and Northwest reservoirs are in good shape, Fazio reported. I don't see a problem in meeting load, he said. The loss of load probability, given a medium-growth forecast, is zero until the end of the decade, Fazio concluded.

10. Update on the future role of Bonneville:

Dick Watson.

Staffer Dick Watson said the region resumed its dialogue on the future role of Bonneville February 10 after a hiatus brought about by the IOU settlement. We postponed our discussions until after the settlement, which fell through, he said. Now we are back "to trying to pick up the pieces," and "we face a time crunch" since Bonneville is planning to make its policy proposal in June, and we need to have our input in by April, Watson stated.

The dialogue is being led by a steering committee with members from customer and interest groups, utility commissioners, and the Columbia River Inter-Tribal Fish Commission (CRITFC), he reported. Watson gave an overview of the goals and issues that surfaced at the February 10 meeting. He laid out these goals: limit Bonneville's role in resource acquisition; price load growth at the cost of the resources needed to serve it; fulfill regional responsibilities for cost-effective conservation, renewables, and fish and wildlife; and establish an arrangement that will endure. The key issues to resolve to meet the goals are: allocation of the existing system; service to meet load growth; means of meeting responsibilities for conservation and renewables; acceptability of long-term contracts; products to be offered; and IOU residential and small farm benefits.

Each of the major issues contains numerous sub-issues, Watson continued. People feel passionately about many of these, and they are difficult to work through, he said, adding that it is unlikely all of the issues will be resolved by April.

Many customers want to keep their existing contracts, which run through 2011, so we have the challenge of implementing change in the context of the existing contracts and providing something that will endure into the new contracts, Watson pointed out. We have asked customers to focus on several specific issues for the next meeting, he said: tiered rates; treatment of contracts that expire in 2006; new large single loads; new public agencies; service to DSIs; products and flexibility to shift among products; benefits to IOU residential and small farm customers; Bonneville cost control; mechanisms to ensure development of cost-effective conservation and renewables; and durability of decisions made now to the period beyond 2011.

We are looking for a customer group to work on the issues and report to the steering committee, Watson said. A separate group will work specifically on conservation and renewables, he added.

We were really close a year ago, and I hope the customers can put aside any animosities that arose during the settlement so we can get to that point again, Watson said. He laid out "a daunting schedule," which calls for draft recommendations in early April and final recommendations by April 26.

11. Update on the petition dealing with Upper Snake River projects under ESA:

Michael Bogert, office of Idaho Governor Dirk Kempthorne.

Michael Bogert from the Idaho Governor's office briefed the Council on a lawsuit filed January 16, 2004, that asks the court to set aside the 2001 Upper Snake River Biological Opinion (BiOp). He began by praising the Council for its role in facilitating collaboration among the Northwest governors. While we have our differences, "we have no inhibitions about looking each other in the eye" and discussing the issues that are important to our constituents, Bogert said. He called the Council's mainstem amendments "a wonderful piece of collaboration."

The complaint that was filed last month in U.S. District Court in Portland is similar in tone, pleadings, and issues to the National Wildlife Federation (NWF) lawsuit that addressed the BiOp for the Federal Columbia River Power System (FCRPS), Bogert explained. The plaintiffs are American Rivers, Idaho Rivers United, NWF, Pacific Coast Federation of Fishermen's Associations, and Institute for Fisheries Resources, he said. While the Idaho Conservation League signed the notice of intent to sue filed last August, they did not sign on to this lawsuit, Bogert noted.

The defendant in the most recent filing is NOAA Fisheries, as it was with the FCRPS lawsuit, he went on. The plaintiffs have asked the court to declare that NOAA Fisheries' 2001 Upper Snake BiOp and the 2002 Supplement violate section 7 of the Endangered Species Act, Bogert explained. He enumerated the claims in the lawsuit, noting that they echo much of what Judge Redden ruled in the FCRPS case. Among other things, the plaintiffs contend the no-jeopardy conclusion in the Upper Snake BiOp is based on "the same uncertain, future mitigation actions that were improperly included" in the FCRPS BiOp, Bogert noted.

He pointed out that the state of Idaho has an interest in maintaining its sovereignty, the provisions of its state water law, and the integrity of "427," which he called the most important number in Idaho. The number refers to the 427,000 acre-feet of water for flow augmentation that the Bureau of Reclamation may seek on a willing-buyer/willing-seller basis from the Upper Snake Basin, Bogert explained. I would be less than candid if I did not point out that significant interests in the state are looking at this lawsuit very closely, he summed up.

Guy Dodson, Shoshone-Paiute Tribes, said the tribes have gotten "the short end of the stick" in Idaho. The 427,000 acre-feet is just one-third of what is pumped out of Owyhee Reservoir every year, he pointed out. The tribes were left out of the All-H and BiOp processes, Dodson contended. He said he would make his tribe aware of the lawsuit and its claims. We have lost 40 percent of the salmon spawning ground above Hells Canyon, and unless the situation is remedied, the salmon will go extinct, Dodson stated.

12. Discussion of Council personnel policies:

Steve Crow, executive director; Sharon Ossmann, business manager; John Shurts, general counsel; and Bill Hannaford, senior counsel.

The Council discussed a number of its standing policies, including: Government in the Sunshine; Unlawful Discrimination and Harassment; Drug and Alcohol; Grievances; and Sponsorship.

13. Council Business:

- **Approval of minutes**

Eden moved that the Council approve the minutes for the January 2004 meeting. Bartlett seconded, and the motion passed unanimously.

- **Subbasin planning contracts**

See agenda item 5.

Approved April 6, 2004:

S/s Melinda Eden

Vice-Chair

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