

JUDI DANIELSON
CHAIR
Idaho

Jim Kempton
Idaho

Frank L. Cassidy Jr.
"Larry"
Washington

Tom Karier
Washington

Steve Crow
Executive Director



MELINDA S. EDEN
VICE-CHAIR
Oregon

Gene Derfler
Oregon

Ed Bartlett
Montana

John Hines
Montana

Council Meeting Portland Oregon

April 6-8, 2004

Minutes

Melinda Eden made a motion that the Council meet in executive session at 1 p.m. to discuss matters subject to the confidential commercial or financial information exemption. Gene Derfler seconded the motion, which passed unanimously on a roll call vote

1. Briefing on the activities of the Northwest Energy Efficiency Alliance and the Oregon Energy Trust:

Margie Gardner, Executive Director, NEEA; and Margie Harris, Executive Director, OET.

According to Watson, two organizations in the region, the Northwest Energy Efficiency Alliance (NEEA) and the Energy Trust of Oregon, Inc. (ETO), represent "cutting-edge approaches" to conservation and energy efficiency, and they are positioned to help the region achieve its goals over the next 20 years.

Margie Gardner, executive director of NEEA, urged the Council to use its influence with "high-level decisionmakers" to encourage conservation and energy efficiency. It is a resource that lowers costs and lowers environmental degradation, she said, noting that the Council appropriately added the term "conservation" to its name.

Gardner described the three primary methods used to achieve energy efficiency in the region: local utility and public benefits programs, such as consumer rebates; state government policies and programs, such as building codes; and market transformation, "which is new to the tool kit" and is at the heart of NEEA's mission.

"Market transformation is a nebulous term," she acknowledged. The concept is to change what is being bought and sold on a long-term basis to effect energy efficiency, Gardner said. It takes volume sales at stores like Sears, Home Depot, and Ace Hardware to get energy-efficiency items, such as compact fluorescent lights, into the market at a price that is economic for

consumers, she explained. NEEA works to bring about long-term sustainable change in the products that are available, Gardner said.

She pointed out that when NEEA was formed seven years ago, no one knew for sure whether the idea would work. A recent consultant's report confirms that we have "transformed markets," Gardner stated. For example, she said, energy-efficient clothes washers have penetrated a much greater share of the market in the Northwest than in other parts of the country, and changes by manufacturers have substantially increased the energy efficiency of windows available for purchase here.

Market transformation works, Gardner said, pointing out that NEEA and its partners have saved an estimated 130 aMW through 2003. That does not count what has been saved through utility rebate programs, she added. These megawatts have been gained at about 1 cent per kWh, compared to 4 cents for new generation, Gardner stated. In the process, NEEA has effected lasting changes in markets, she said.

Gardner went on to talk about the impact of budgets on energy-efficiency achievements. In 1994, the region was spending about \$350 million annually on conservation, and in 2000, that figure had dropped to about \$50 million, she said. Budgets are slowly ramping back up, Gardner pointed out, but the region needs to coordinate efforts and leverage its resources to make the most of those dollars.

She offered a list of energy-efficiency opportunities and the aMW available from each by 2025. An estimated 535 aMW is available from compact fluorescent lights, but the big question is how to get them into people's homes, Gardner said.

It would help my board to know which of the items on this list you think are important to do and what kind of work, such as R&D or testing, you think is needed, she told the Council. Your staff can be a great help on that, Gardner indicated.

Karier asked if the NEEA effort is about the right size. We are now limited by funding, Gardner responded. We are getting requests from the region for help on things that we cannot afford to do, she explained. Gardner also indicated that more resources could be used for evaluation and conducting information surveys, activities that are outside the NEEA mission, but are needed in the region.

Executive director Margie Harris briefed the Council on the activities of ETO, which was an outgrowth of Oregon's utility restructuring legislation in 1999. ETO's mission is "to change how Oregonians produce and use energy by investing in efficient technologies and renewable resources that save dollars and protect the environment," she said.

Portland General Electric and PacifiCorp customers in Oregon began paying a 3 percent public-purpose charge in March 2002, Harris explained. The charge provides stable funding and represents a commitment to energy efficiency and renewable resources in the state, she said.

ETO operates as a non-profit entity with a volunteer board, Harris said. In addition to the electric utilities, ETO administers public-purpose funds for Northwest Natural, a gas provider, she stated. ETO administers about 74 percent of the funds collected through the public-purpose charge; the rest are administered by the state and by education districts, Harris said.

ETO has five “ambitious” goals, she explained: save 300 aMW of electricity and 19 million annual therms of natural gas by 2012; provide 10 percent of Oregon’s electricity from renewable resources by 2012; serve hard-to-reach markets; strengthen and grow the clean energy industry; and benefit the daily lives of Oregonians. I would like to see energy efficiency become as commonplace in people’s lives as recycling, Harris said.

With an annual budget of about \$50 million, ETO works with other entities to manage programs, conduct training and outreach programs, raise awareness, and provide technical assistance and cash incentives to achieve its goals, she continued. ETO has launched programs in the areas of building efficiency, production efficiency, home energy savings, efficient new homes and home products, and solar thermal, Harris said.

In 2003, ETO delivered energy-efficiency savings equal to 17.5 aMW of electricity and 208,223 therms of natural gas, she reported. ETO’s list of 2003 renewable energy achievements is long and includes the largest solar-electric system west of the Rockies, installed at Kettle Foods in Salem, Harris indicated.

She emphasized ETO’s reliance on Council staff for analytical capabilities and expertise. ETO also coordinates with NEEA to leverage its efforts and build regional momentum, according to Harris. In addition to its 2003 energy-efficiency and renewables achievements, ETO estimates that it stimulated \$7.8 million in wages, \$1.5 million in new business income, and 204 new jobs, she reported. We are very interested in quantifying our results, and we are putting emphasis on evaluation and feedback so we can know if our programs are reaching our expectations, Harris concluded.

2. Briefing on the state of the science and policy on climate change:

Dr. Phil Mote, University of Washington and Dr. Mark Trexler, Trexler Associates.

Dr. Philip Mote, Washington state climatologist and a research scientist with the Climate Impacts Group at the University of Washington, briefed the Council on climate change and its potential effects in the Pacific Northwest. In introducing Mote and consultant Dr. Mark Trexler, Watson noted that climate change is one of the risks staff is considering as it develops the fifth power plan.

The Intergovernmental Panel on Climate Change (IPCC), which has about 600 scientists as members, released major reports in 1990, 1996, and 2001, Mote began. In its latest report, IPCC came to a couple of compelling conclusions, he said:

- An increasing body of observations gives a collective picture of a warming world and other changes in the climate system.
- There is new and stronger evidence that most of the warming observed over the last 50 years is attributable to human activities.

In other words, Mote said, “it really is warming,” and evidence indicates that natural variability in the climate does not account for the change.

Mote explained the greenhouse effect caused by incoming solar radiation and pointed out that “long-lived” greenhouse gases in the earth’s atmosphere have increased dramatically in the past 50 years. Carbon dioxide is up 32 percent and methane is up 150 percent, he stated. Global average temperature “has staggered upward” over the past century and is now about .6 degrees Celsius warmer than it was just 60 years ago, according to Mote. Long-term reconstructions by a number of scientists show substantial warming starting in the 1800s, which becomes particularly marked in the last third of the 20th century, he pointed out.

Temperature readings, retreating glaciers, trends in the timing of spring snowmelt, and declines in snow-water equivalent all point to warming temperatures, Mote said. Satellite observations show a somewhat different pattern in terms of atmospheric warming, he acknowledged. The satellites are telling an important story, but not the whole story, Mote said. The earth’s surface is definitely warming, he stated.

Mote cited several pieces of evidence that the warming is not a natural trend. The rate of change appears to be unusual, and the spatial pattern of change matches what scientists would expect from increasing greenhouse gases, he said. In addition, solar and volcanic forces should tend to have led to cooling temperatures in the past 30 years, but that has not happened, Mote pointed out. There is growing evidence “we are stepping outside the bounds of natural variability,” he stated.

The main impact of global warming in the Pacific Northwest will be less snow, Mote went on. Snowfall reductions would be greatest in the Cascades, since they are lower mountains and most vulnerable to warming, he said. Mote offered graphs that showed how the shape and timing of river flows would change, noting that peak flows would occur earlier in the year and would be less gradual.

Regional climate change will take many forms, some of which we cannot predict, he summed up. Warming is virtually certain and will have profound impacts, including loss of snowpack and a reduction in summer water supply, Mote stated. This would mean hardships for salmon, forests, and irrigation, he said. There are steps that can be taken now to assess and reduce the vulnerability climate change presents, Mote concluded.

Trexler said climate change has implications for the relative cost of energy sources. For power planning purposes, we need to consider what carbon dioxide emissions “will cost in the future,” he explained.

Trexler offered the following quote from a World Economic Summit in January 2000: “Climate change is the most pressing future issue facing the business community.” The economic community views climate change as a major issue in terms of corporate strategy and planning, he stated.

Climate change policy trends show this as “a fast-moving issue,” Trexler continued, noting that the IPCC was formed in 1988 to look at the issue, and by 2005, the European Union is expected to launch a trading system for power-plant emissions. International policy trends, represented by the 1997 Kyoto Protocol, show major attention to reducing the growth in emissions, he indicated. It is uncertain, however, whether the Kyoto Protocol will be ratified, since neither the United States nor Russia has committed to sign, Trexler said.

He outlined policy trends going on around the globe, from Canada, where domestic emissions trading may be on the horizon for 2008, to Japan, where there is a commitment to the Kyoto Protocol, but whose limited domestic options and economic stagnation make it tough to undertake aggressive measures. In the United States, climate change policy “is stuck” at the national level, and there is “an overwhelming focus on domestic costs” of any programs, Trexler explained. There are examples, however, where individual states have taken action, including Oregon and Washington, where new standards have reduced the allowable carbon dioxide emissions from power plants, he said.

Trexler outlined “trend scenarios” for future policy and projected their effect on the Pacific Northwest. He gave high odds to a scenario labeled “Stay the Course,” which would not necessarily succeed in meeting the challenges of climate change, but would stimulate numerous policies and measures. This scenario could lead to “not insignificant” costs for carbon dioxide emissions, Trexler noted. In a “Deal With It” scenario, which he gave “modest odds at best” of occurring, there would be aggressive measures to reduce emissions and develop new technology, and costs to the power sector would be significant. Numerous factors could influence which of the scenarios plays out, including continued scientific findings, greater international cooperation, and whether “fear of sudden climate change takes hold,” Trexler pointed out.

Climate change is a significant issue in the Pacific Northwest simply in terms of hydro planning, he said. It is very likely there will be material and disruptive impacts on policy over time, and the effect on ratepayers is potentially significant, Trexler stated. While states can’t stop climate change or force international cooperation, they can position themselves for this issue and consider appropriate policies in response, he concluded.

3. Presentation on the assessment of regional conservation resource potential:

Tom Eckman, conservation resources manager; and Charlie Grist, senior analyst.

There is potential for the region to achieve 2,800 aMW of cost-effective conservation by 2025, staffer Tom Eckman told the Council. Conservation is the region’s top priority resource under the Northwest Power Act, and according to a staff analysis for the fifth power plan, the potential for the next 20 years is roughly equal to what was captured in the region from 1980 to 2001, he said.

If the region were to acquire 150 aMW per year, it would meet half of the projected load growth (medium forecast) at a cost of about \$350 million to \$400 million annually, according to Eckman. The average cost of the conservation resource is 2.4 cents per kWh, and depending upon the shape of the load, resources up to 8.9 cents per kWh are cost-effective, he continued.

The single largest source of potential conservation is in residential compact fluorescent lights, which could be acquired at about 1.7 cents per kWh, Eckman said. Non-aluminum industrial conservation is the second-largest single source of potential, and new and replacement commercial equipment and commercial lighting offer other large amounts, according to the staff analysis.

Eckman described a number of new conservation technologies and applications, and he outlined the process staff used for estimating conservation resource potential, costs, cost-effectiveness,

and energy savings. In estimating the costs, we didn't try to determine who should pay – it's just a tally of all the costs, he noted.

About 1,475 aMW of cost-effective conservation potential is in the residential sector, most in lighting and “space conditioning,” according to Eckman. The cost-effective and achievable potential in the commercial sector is about 1,144 aMW, most in “HVAC” systems, lighting, and equipment, he said. A lot of the potential with lighting comes from improvements in technology, staffer Charlie Grist pointed out. With regard to industrial conservation, there is about 350 aMW of potential at 1.7 cents per kWh, he reported, and irrigated agriculture offers about 80 aMW of achievable potential.

The region could meet over 10 percent of its load (medium forecast) in 2025 with cost-effective and achievable conservation, but it would mean the conservation investment would have to increase significantly from its current level of under \$150 million annually, Eckman said. While market transformation and building codes will pick up some of the potential, the message to utilities is, “we will have issues with budgets” if we are to acquire all of the cost-effective conservation, he stated.

Hines pointed out that the region has experienced big rate increases in recent years, and resolving equity and program design issues related to conservation is imperative. Your analysis shows there is a strong rationale for pursuing conservation, but the rate impacts are significant, he stated. We need to find programs that share the benefits broadly, Hines indicated.

4. Discussion of Council policies and business practices (contract policies and procedures and open meetings):

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

Jim Tanner explained the Council's contracting policies and procedures. He reviewed the history of the contracting policy and noted that an annual audit occurs to assure Council compliance. Every contract file contains a number of standard documents, according to Tanner. He presented copies of the documents and explained their use, noting the signatures required to approve particular actions. Tanner explained how contract budgets, payments, and deliverables are tracked. He also highlighted a number of other contract considerations, pointing out that the Council does not accept unsolicited proposals, avoids unauthorized commitments by requiring that no work begin until a contract is signed, and applies two criteria in awarding sole source contracts: ability to meet specific deadlines for deliverables and unique qualifications.

As the Council prepared to review specific consultant contracts, Danielson proposed the Council go into executive session.

Eden made a motion that the Council meet in executive session at the call of the chair to discuss matters subject to the confidential commercial or financial information exemption. Derfler seconded the motion, and all members present voted in favor on a roll call vote. Cassidy was absent for the vote.

5. Briefing on Environmental Protection Agency activities:

John Iani, Regional Administrator, Environmental Protection Agency.

John Iani, who has served since 2001 as administrator for the Environmental Protection Agency's (EPA) Region 10, briefed the Council on EPA activities in the Columbia River Basin. EPA's Region 10 is responsible for ensuring clean air, water, and land in Alaska, Washington, Idaho, and Oregon, he said. To achieve its mission, EPA works with state and local agencies and other interests, as well as the governments of 271 federally recognized tribes in Region 10, according to Iani.

He described EPA's role in protecting watersheds, saying the Administration recognizes you can't approach this responsibility "in a piecemeal fashion." You have to think "holistically" and address a watershed "from the headwaters to the mouth," Iani said.

The Columbia River Basin is one of the country's "premier" watersheds and a focal point for the nation on water quality, he indicated. EPA's goal is to protect public health and aid in the recovery of Pacific salmon by reducing sources of contamination and improving water and habitat quality "in or near" waters of the basin, Iani said.

Water temperature is critical to salmon, he continued, noting that EPA issued guidance in 2003 for states to use as a temperature control "roadmap" and worked with the State of Oregon on water quality standards that are "a national model." EPA also recognizes the importance of the estuary to salmon recovery and is committed to its well-being, Iani indicated.

EPA does not support dam breaching, and "the federal government is united on that," he stated. EPA has modeled the Columbia River without dams to better understand what can be done to improve water temperature, Iani acknowledged, but "we are not about breaching dams." Dams need to operate in the most environmentally sound manner, and we are committed to working with others on what is achievable, he said.

With regard to reducing toxins, Iani cited EPA's cross-border negotiations to clean up slag discharges into Lake Roosevelt from an aluminum smelter in British Columbia and efforts to restore the Coeur d'Alene basin, contaminated from historic mining operations. EPA completed a survey of contaminants in Columbia River fish in 2002, he said. The tribes have a great interest in this issue since they consume so much fish in their diet, and we are exploring future work with NOAA Fisheries related to toxins in salmon, Iani said.

Eden asked about EPA's role in addressing oil contamination and PCB spills in the Columbia River. Our role is to oversee state programs, and if the state effort is not satisfactory, we reserve the right to enforce action, Iani responded. Is Oregon adequately addressing this? Eden asked. Iani said he had not heard of a problem with what the state is doing. Can Oregon depend on EPA to step in if there is a need? Eden pressed. We prefer to work with the states, but there are instances in which we have stepped in to enforce the Clean Water Act, Iani stated.

6. Briefing on draft Action Plan for the Fifth Power Plan:

Dick Watson, director, power division.

[dropped from the agenda]

7. Status report on the Biological Opinion remand:

Rob Walton, NOAA Fisheries.

Rob Walton of NOAA Fisheries said as part of preparing a new court-ordered BiOp for the federal hydro system, his agency is collaborating on technical and scientific issues with state and tribes. While those meetings are not confidential, we have asked that people not go to the press, he said. Bruce Suzumoto's March 29 memo briefing the Council on the jeopardy analysis that is under discussion in the collaboration "struck the right balance," and I'd like to compliment him on that, Walton said. The process will not be served if the issues are debated in the press, he added.

NOAA Fisheries submitted a "Defendant's Third Status Report" April 1, Walton said. In the report, we informed the court of our collaboration on five topics, he continued: hydro system effects, dam passage, the role of hatchery programs in offsite mitigation, habitat offsite mitigation potential, and a framework for applying the jeopardy standard.

We reported that the collaboration has changed our proposed schedule for completing a new draft BiOp, Walton stated. We said we could have a draft within 90 days after the collaboration concludes; if the collaboration wraps up by the end of May, for example, we could have a draft BiOp out by the end of August, he explained.

The court left the 2000 BiOp in place, and parties will adhere to it until a new one is adopted, Walton said. Summer spill will be addressed in the new BiOp, he added.

We understand NOAA Fisheries may be looking at a base case that includes having the dams in place, Karier said. What does that mean? he asked. Walton said the issue relates to determining "the environmental baseline" to be used for the BiOp. We have proposed considering the dams and reservoirs as part of the base case to which we would compare proposed operations, he explained. The issue pertains to the framework for analysis, Walton said, adding that for more explanation, "I would refer you to the collaboration."

If the draft BiOp is ready by the end of August, we'd expect to have a new final out in November or sooner, he stated. The obvious question is, are you going to ask for an extension beyond the June 2 deadline? Eden asked. Yes, Walton responded.

8. Briefing on the Columbia River Initiative:

Gerry O'Keefe and Keith Phillips, Washington Department of Ecology.

The impetus for the Columbia River Initiative came in late 2000 and early 2001, when differences of opinion over how the State of Washington should address water rights for the Columbia River culminated in litigation, staffers from the Washington Department of Ecology (WDOE) told the Council. The Columbia River Initiative, created by Governor Gary Locke, was a way “to start a conversation” about how to handle water rights and reconcile competing points of view, Gerry O’Keefe explained.

The Initiative will result in an administrative rule to establish a new water management program for the Columbia River that defines how WDOE “will carry out its dual obligations to allocate water and preserve a healthy environment,” including support for salmon recovery, according to a WDOE handout.

As part of the Initiative, WDOE commissioned a study from the National Academy of Sciences (NAS) to evaluate the risk new water withdrawals from the Columbia River would pose to fish and how to mitigate the risk, O’Keefe said. A report, entitled “Managing the Columbia River: Instream Flows, Water Withdrawals, and Salmon Survival,” was issued by a branch of NAS, the National Research Council, at the end of March, he said. WDOE has since drafted a paper stating its understanding of the report, O’Keefe explained.

He went over the draft paper, which covered the NRC’s findings, conclusions, and recommendations. Among the findings, O’Keefe pointed out the NRC’s statement that due to the number of variables and the range of impacts, “it is not possible to conclusively determine the degree to which individual water withdrawals affect salmon survival.” NRC also found that the current water withdrawals and proposed additional withdrawals from the mainstem would have “noticeable effects” on Columbia River flows during the months of July and August, he noted.

Flexibility and reversibility of actions are themes throughout the NRC’s conclusions and recommendations, and an adaptive management approach is suggested, along with exploring water transfers as an alternative to withdrawals, O’Keefe said. NRC recommends convening a joint forum to discuss the consequences of authorizing new withdrawals and to improve communication and coordination, he added.

WDOE also commissioned an economic review to provide perspective on the value of water for various applications, O’Keefe continued. The study, conducted by the University of Washington, pointed out that increased diversions would have a negative impact on hydropower production, but a large positive impact on the state’s economy, particularly in the agricultural sector, he reported. The University of Washington also said improving and facilitating the exchange of water rights through markets should improve efficiency of water use and provide opportunities to acquire water for fish and wildlife, O’Keefe said.

According to WDOE’s timeline for the Columbia River Initiative, a draft rule will come out in July, with public hearings in August and September. A final rule will be adopted by early December and take effect January 22, 2005. Governor Locke is committed to finishing this job, O’Keefe said. We’re interested in the Council’s thoughts on how we can meet the water needs in our state consistent with salmon recovery, he wrapped up.

Our governor is also under pressure for more water withdrawals from the Columbia River, Derfler pointed out. This action in Washington could lead to more pressure in Oregon, and that

would be a problem, he indicated. Keith Phillips of WDOE said staff working on the Initiative has talked to numerous interests, including the State of Oregon. The NRC report said this is one big basin, and we need to make this a broad basinwide effort, he added.

Danielson noted Idaho's interest in the issue. Idaho struggles to come up with our 427,000 acre-feet "donation" to the system and would look closely at increased withdrawals downstream, she indicated.

Eden questioned whether Washington's system of water rights enforcement would be up to the task if withdrawals from the Columbia were increased. Oregon has a number of water masters, who can be called out if someone is consuming more than they are allocated, she explained. You may need more water masters, Eden suggested.

9. Status of long-term Bonneville funding agreement for fish and wildlife:

John Ogan, senior counsel; and Doug Marker, director, fish and wildlife division.

Staffer Doug Marker said discussions on a long-term agreement for fish and wildlife funding are proceeding on two tracks: developing a cost estimate for the fish and wildlife program, and determining management policies. Most of our current work is on developing the cost estimate that will be used for a fish and wildlife budget in Bonneville's next rate case, he said.

Marker pointed out that Bonneville has agreed over the years to take on O&M costs for a number of fish and wildlife projects, and those costs are being inventoried to come up with the total figure. We are calling these "fixed costs," and most relate to hatcheries, he said.

A second part of the cost estimating exercise is determining reasonable costs to meet broad categories of fish and wildlife policy objectives, Marker continued. This involves identifying reasonable goals and trying to turn them into dollars for the rate case, he stated.

With regard to management and policy issues, the working committee will be putting together a list, and as we develop this, we will consult with the Council, Marker said. We're on an aggressive schedule, he added.

How will you estimate the cost of implementing subbasin plans? Karier asked. Since the rate case will be under way before subbasin plans are adopted, we'll come at it differently than assigning costs to the plans and identify categories of costs, Marker explained. It's not clear whether Bonneville will be responsible for funding everything in the plans, he added.

10. Update on the Fiscal Year 2005-2007 Fish and Wildlife Program budget review and development process:

Patty O'Toole, program implementation manager.

Patty O'Toole briefed the Council on the strategy for developing fish and wildlife budgets over the next three years. Staff identified four major issues that bear on the strategy, she said: continuing to support work approved through the provincial reviews; staggered expiration of

approvals from 2003 to 2005; availability of subbasin plans to guide budgets in 2006; and the lack of funding levels and project-selection procedures for 2007 and beyond.

For the 2005 budget, staff will work closely with Bonneville over the next few weeks to identify the status of all projects and build a budget based on work that remains, O'Toole said. Once the review is complete, staff will develop recommendations and seek comment on them, she said. The goal is to get a draft 2005 fish and wildlife budget to the Council in June and have a final by July, O'Toole stated.

Subbasin planners will be turning in their work at the end of May, and they will want to know when we will begin implementation, Karier stated. I need an answer for them about how much budget will be available in 2005, he said. Karier also pointed out that no new project proposals have been developed since 2001 in provinces reviewed early in the cycle. The proposals are "stale" in those provinces, he said.

We are trying to verify if there are enough funds to complete the original provincial recommendations, Marker clarified. Some of the current project sponsors say they are behind in completing their projects due to Bonneville's contracting procedures, and they need the money to finish, he explained. We are verifying that, Marker said, noting that staff wouldn't know until after the verification whether funds are available for new projects.

Staff proposes to transition to implementing subbasin plans in 2006-2007, O'Toole said. Questions remain about whether to transition in stages or all at once, she noted.

11. Briefing on Bonneville Power Administration financial management policy:

Jim Curtis, Chief Financial Officer, Bonneville Power Administration.

Jim Curtis, Bonneville's chief financial officer, explained the circumstances that led to the agency's recent financial disclosure policy. A number of events – the drought, California energy crisis, cost-recovery adjustment clause triggers – led to a run on requests for Bonneville financial information, he said. We had staff in various parts of the agency producing "ad hoc" reports, which were going out with inconsistent terminology, conventions, cost categories, and time periods, according to Curtis. We tried to do quality control on the reports on an ad hoc basis, which didn't always work out, he said.

The result was confusion, as people tried to piece together and reconcile figures from disparate reports, and there was some mischaracterization of the information, Curtis continued. The purpose of our new financial disclosure policy is to remedy the situation, he stated. We are aiming to release "consistent, reliable, and timely financial information" and to share the information simultaneously with all interested parties by putting standard reports on line, Curtis said. Unofficial or preliminary information may still be released, but it will be clearly and appropriately identified as such, he explained.

Curtis pointed out that Bonneville has legal requirements to meet in disclosing and/or withholding information about its finances, as well as practical and economic considerations. We have an interest in disclosing information in order to build trust and create transparency into

our financial condition, he said. The purpose of the policy is to establish internal procedures about whether and in what manner disclosures will be made, Curtis said.

He outlined the factors that are considered in making a determination on disclosure, including protecting business-sensitive information, providing fair and equitable disclosure to all parties, relying on standard financial reports that meet people's needs and can be produced at low cost, and operating with administrative efficiency. Bonneville will continue to consult with its customers and constituents on the adequacy of the information provided, and we will make changes as necessary, Curtis concluded.

Eden said the Council was caught by surprise when Bonneville issued its financial disclosure policy. She asked if Bonneville would consider formulating more of its policies in a public forum. That depends on the policy, Curtis replied. In this case, we needed to put something in place quickly, he said, adding that in other cases, it depends on the degree to which a policy would affect the public and on the need to get a policy completed to meet a legal requirement. "When we can, we engage others," Curtis stated.

I'm most concerned about capitalization, Eden said. Your policy is based on a statutory interpretation, and I believe there is room in the statute for a different interpretation, she said. Is Bonneville willing to reconsider its policy? Eden asked.

Our capitalization policy is more liberal than you will find elsewhere, Curtis responded. And we made changes in the last rate case that went even further in providing capitalization, he indicated. Curtis said he would not support opening a public process on the policy at this time.

Your capitalization policy with regard to fish and wildlife is not settled, and the fish crediting requirement is not clear, Karier stated. There is a need for a broad policy review, he said. Karier also said he hoped the financial disclosure policy would not impinge on Bonneville's 4(c)(9) responsibilities to provide the Council with information.

Cassidy noted that Bonneville is losing Therese Lamb, who was "straightening out" problems in fish and wildlife accounting. I want your commitment that those problems will continue to be solved, he said. I can give you that assurance, Curtis answered.

Gene Derfler asked for an update on the customer collaborative, and Curtis reported that Bonneville has developed standard information statements and is providing them to customers monthly. We're also working to build the customers' knowledge base so the information we provide, on issues such as debt optimization, will be more meaningful, he said.

12. Briefing by the U.S. Army Corps of Engineers on environmental compliance:

Deborah Chenoweth, Chief of Operations; and Paul Peloquin, Environmental Compliance Program Manager for the Northwestern Division of the U.S. Army Corps of Engineers.

A January 15 mineral-oil spill at The Dalles Dam has been "a hot topic" around the Corps of Engineers, according to Deborah Chenoweth, chief of operations for the Corps' Northwestern Division. About 2,250 gallons of oil leaked from a transformer, and about 1,300 gallons of that

discharged into the river, she said. “We had some difficulty with the spill,” Chenoweth acknowledged, explaining that some of the oil leak was hidden by snow. We recognized later that we had a bigger problem than we originally realized and called in an environmental cleanup company to deal with it, she said.

The Corps convened a panel of experts to look into the incident and report on what we could do to prevent such problems in the future, Chenoweth said. The panel members spent several days examining the site and then came up with a report and recommendations, she continued. “We accepted the report in its entirety” and developed an action plan based on what the experts told us, Chenoweth stated. We also held a public workshop on the report and plan, she stated. Chenoweth said she has a list of two-dozen actions the Corps is undertaking to improve maintenance practices and mechanical reliability at all 19 hydro projects within the Portland district to avoid future spills.

No PCB-laden oils are used at Corps facilities in Oregon; however, some residual oil may remain in pieces of equipment that have not been replaced, she told the Council. District managers from Walla Walla and Seattle also reported that they have no equipment in service that has PCB-laden oils; there is a transformer that contains PCBs in a storage yard at McNary awaiting disposal.

Hines asked if the steps the Corps is taking, including reporting every small spill, are an unnecessary expense. Is it “overkill?” he asked. It is expensive, Chenoweth acknowledged, but I don’t think it is overkill. Prevention is the key word, she said. “It’s cheaper to keep things out of the river,” Chenoweth stated, noting that the January incident has depleted the supply budget for The Dalles Dam.

13. Update on Yakima Basin Storage Alliance - Black Rock Reservoir Project:

The Honorable Sid Morrison, chair; Tom Carpenter, Jr., and Charlie de La Chapelle, Yakima River Basin Storage Alliance.

Advocates for new storage in the Yakima basin briefed the Council on the proposed Black Rock Reservoir Project. The Yakima Basin Storage Alliance (YBSA) is a non-profit organization dedicated to encouraging water transfers from the Columbia River to the Yakima basin, according to YBSA chair Sid Morrison. “We need to borrow water when you don’t need it and return it in kind *with fish*,” he stated, in describing the proposed Black Rock project.

YBSA was formed “to breathe new life” into the search for and construction of additional water storage in the Yakima basin, Morrison explained. A number of sites have been studied, and in 2002, Congress appropriated money for the Bureau of Reclamation (BOR) to do a feasibility study at Black Rock, east of Yakima, he said. Demand for water has increased in the basin, and years of drought have led to empty reservoirs, Morrison said. Black Rock reservoir would be a way to avoid the wars for water that have taken place in the Klamath basin in Oregon and the Methow in Washington, he stated.

The Black Rock proposal calls for water to be withdrawn from the Columbia near Priest Rapids dam and transported by pipeline to a 1.75 million acre-feet reservoir, Morrison explained. A 660-foot dam would be built to form the storage, he said.

According to YBSA vice chair Charlie DeLa Chapelle, the BOR's initial study concluded there are "no fatal flaws" at the site, and a more detailed evaluation is now under way. If the studies come to a positive conclusion and the project moves forward, construction and reservoir fill would take another 10 years, he said. The cost estimate for the project is \$1.8 billion, but considering the \$1.5 billion droughts are costing the Yakima basin, the price tag would be worth it, DeLa Chapelle indicated.

Ted Strong of the Yakama Indian Nation pointed out that Black Rock would add additional flexibility for water use in the Yakima basin and that water from storage could be released back into the Columbia when flows are needed for fish. Morrison said the project includes the potential for power generation.

Ed Bartlett asked if the rule being sought through the Columbia River Initiative would provide the legal vehicle for water right transfers needed for Black Rock. Panelists said the Initiative was a separate effort unrelated to their project.

Eden said Oregon has its own list of people who want more withdrawals from the Columbia. She asked if project advocates have thought about downriver interests in pursuing Black Rock. "We would hope Oregon would say thank you," Morrison responded. We want to put water back into the system before it gets to you, he said. We were inspired by the exchange that occurs in the Umatilla, DeLa Chapelle stated. We are not asking for additional water or land, he said.

The Council is the first stop in a regional information and advocacy effort, Strong said. We will need to see if an interstate discussion is needed, he acknowledged. We are doing everything possible to see that there is no net loss to the Columbia River, Strong stated.

14. Briefing on the action agencies proposed summer spill and Montana operations:

Bruce Suzumoto, manager, special projects; Greg Delwiche, Bonneville Power Administration, and others.

Bonneville and the Corps of Engineers, in collaboration with NOAA Fisheries, issued a preliminary summer spill proposal March 30, Greg Delwiche of Bonneville reported. But the runoff forecast has deteriorated so much in recent weeks, that flows may be too low to allow even for spring spill, he acknowledged.

With regard to the summer spill proposal, after considering public comment, the agencies will release an amended proposal next week and make a decision the third week of April, Delwiche said. The decision and a package of offset measures will then go to NOAA Fisheries for a finding, he explained. So far, the offsets we have identified will get us to only 50 percent of the potential fish losses, but by next week, "we want to close the remaining gap," Delwiche stated. A big issue in the discussion of offset measures will be additional water from Dworshak, he noted.

Bonneville is also adding \$5 million to the 2005 and 2006 fish and wildlife (fish and wildlife) program budgets, Delwiche continued. That's a direct program enhancement that will, among other things, help with the transition issues that resulted from Bonneville's accounting system

change, he said. The money is not for a separate project solicitation, nor is it up for negotiation with other offset measures, Delwiche added.

Judi Danielson asked if the offset measure related to smolt stranding in the Hanford Reach is something other than what Grant County PUD is already doing. Delwiche pointed out that Grant could not accomplish its anti-stranding program without financial and hydraulic help from the federal projects. Grant acknowledged that in its relicensing application for Priest Rapids, he indicated. Bonneville is entering into a 10-year agreement that includes a commitment to manage flows so rearing areas in the Hanford Reach are not left dry on weekends, Delwiche stated.

Tom Karier said he had heard little discussion about the research aspect of the federal agencies' summer spill proposal. What research is planned for this period? he asked. Karier also urged Bonneville to work with Idaho Power on shaping flows from Dworshak for the benefit of the Nez Perce hatchery.

We have not seen a proposal for a shaping operation at Dworshak that increases biological benefits, Delwiche responded, but "we're all ears if someone has an idea." As for research associated with a cutback in summer spill, he said a systemwide evaluation of impacts isn't feasible because of the huge number of fish that would have to be marked. But dam-specific projects are in the research plan, Delwiche said. Is this research specifically related to spill or are these things you would be doing otherwise? Jim Kempton asked. "It's a mixed bag," Delwiche responded.

John Hines asked about augmenting artificial production to offset losses. We've gotten good suggestions on that, Delwiche said, adding that Umatilla stocks migrating through the John Day pool, where mortality is high, may present such an opportunity. There are opportunities in the system to use additional hatchery production if people are willing to consider it, staffer Bruce Suzumoto agreed.

Oregon is interested in "in-time, in-place offsets," Melinda Eden stated. We are interested in more targeted offsets, and we want offsets on specific stocks affected by the changes in spill operations, she said. With regard to research, monitoring, and evaluation (RME), we ought to be more specific and aggressive about analyzing spill, Eden stated. She also questioned the equity of the split in the power revenues that would be available with reduced summer spill. Even if it's not a 50-50 split, it should be better than 10-90, Eden said, referring to the \$5 million Delwiche said would be added to the fish and wildlife program budget.

Danielson asked if enough is being proposed to address losses in the non-listed stocks. Expanding the pikeminnow bounty program benefits all stocks, Delwiche responded. How can we ignore the Caspian tern? Larry Cassidy asked. We spend millions of dollars to get these fish to the estuary, and then "they are gobbled up like Häagen Dazs ice cream at the mouth of the river," he said. The Corps has to vegetate any new dredge sites so we don't create a bigger problem with the terns, Cassidy added.

Warm dry conditions in March and April led to another drop in the spring runoff forecast, Delwiche reported. The final forecast is 74,000 cfs, or 78 percent of normal, he said. There is only a 10 to 15 percent chance spring flows in the Snake will be above 85,000 cfs, and under those conditions, the BiOp calls for transporting fish from the dams on the Snake River rather

than spilling water, Delwiche explained. The Technical Management Team is discussing the situation today, he said. The BiOp is clear, but some may not want to see it implemented and “will want to have spill anyway,” Delwiche stated.

Suzumoto asked what the runoff conditions mean for fish operations at McNary. The BiOp calls for bypassing fish into the river at McNary “until conditions are no longer spring-like,” Delwiche said. Conditions are no longer spring-like if flows fall below spring flow targets and temperatures reach 62 degrees, he explained. We’d likely transport under such conditions, but “it’s not fully binding,” Delwiche indicated.

15. Council decision to release draft recommendations on the Future Role of Bonneville:

Dick Watson, director, power division.

Staffer Dick Watson characterized recommendations on Bonneville’s future role in power supply as a “fundamental change in how Bonneville carries out its role.” We’re not proposing that Bonneville’s role change – the agency meets loads placed on it by “qualifying customers” – but we recommend they do things differently, he said. The Council recommends Bonneville market power from the existing system at embedded costs and serve demand beyond the capability of the existing system “where requested, and where the customer bears the costs and risks,” Watson explained.

The existing federal system is in load/resource balance, he said. Our recommendation is for Bonneville to price new resources needed to meet load growth at the cost associated with acquiring those resources, Watson said.

He described three mechanisms Bonneville could use to define its role: a policy, which could be changed relatively easily; a rule, which could be changed, but not easily; and legislation, which is durable, but risky. We recommend defining the policy direction through a rulemaking in accordance with the Administrative Procedures Act, Watson stated. A rule would have the force of law and be binding on the agency even under future Administrators, he pointed out.

There is a question about whether Bonneville could issue a substantive rule such as this, staffer John Shurts acknowledged. The agency’s legal staff is looking into it, he said.

Watson continued to describe the Council’s proposed recommendations, which include that Bonneville: enter long-term (20-year) contracts as soon as possible; allocate the existing system and determine eligible utilities’ shares; serve new publics on the same basis as existing customers, after a waiting period sufficient for acquiring new resources; consider tiered rates under the existing contracts only if there is not significant progress toward new contracts; offer a limited amount of power for a limited period to “responsible” DSI customers; pursue a settlement for the residential and small-farm IOU customer benefits; acquire all cost-effective conservation at as low a cost to the system as possible; develop renewable resources guided by the Council’s power plan; work to develop a regional adequacy standard to ensure that utilities develop sufficient resources to serve their loads; and continue to meet fish and wildlife obligations in the way they are met today.

Cassidy suggested language be added to indicate fish and wildlife obligations are to be carried out according to the Council's fish and wildlife program, and the Council agreed. Eden made a motion that the Council release its recommendations for public comment, and Kempton seconded. The Council voted unanimously in favor of the motion. Watson said comments would be due by April 24, and final recommendations would come to the Council for approval in May.

16. Overview of Council Fiscal Year 2006 Budget and Fiscal Year 2005 revisions:

Steve Crow; Jim Tanner; Sharon Ossmann.

Tanner presented revised FY 2005 and 2006 budget proposals. In May, we will have a draft to release for public comment, he said. Sharon Ossmann detailed the 2006 proposal, noting that the budget is capped, under an agreement with Bonneville, at \$8.7 million. State office budgets total about \$2.6 million and the central office budget is about \$6.1 million, she said. Ossmann went over figures for each division, and said that next month, she would have a budget proposal with narratives from each division director.

Tanner pointed out that the Council's FY 2007 budget will be in the next Bonneville rate period and outside the period covered by an agreement between Bonneville and the Council that caps the current budget. He suggested the Council begin discussing a strategy for stabilizing funding for its budget.

17. Council Business:

– Approval of minutes: February 2004 and March 2004

Eden made a motion that the Council approve for the signature of the vice chair minutes for the February 17-19, 2004 meeting held in Boise, Idaho and for the March 9-10, 2004 meeting held in Helena, Montana. Derfler seconded the motion, which passed unanimously.

– Discussion of Data Management MOA with NOAA Fisheries and Bonneville

Staffer Peter Paquet updated the Council on the status of work on the Northwest Environmental Data System. He said the Council has a Memorandum of Agreement with NOAA Fisheries and is working with other agencies to get them to join the effort. Indications are that the Corps and EPA will sign "with caveats," and that Bonneville is also willing to sign, but wants the pace picked up with product delivery. There is regional recognition of the need for a better protocol on data management, Paquet stated.

Staffer Steve Crow reported that a letter in support of several federal agency budgets has been sent to members of three subcommittees in the U.S. House of Representatives. The letter expresses support for the Corps, BOR, NOAA Fisheries, and U.S. Fish and Wildlife Service budgets.

– Shift funds from WDFW contract to Yakima County

Staffer Lynn Palensky explained the need to transfer monies from one planning entity to another in the Yakima subbasin. She also pointed out that state subbasin planning coordinators will need

new contracts after May 28 to complete their work. We will have a conference call on that during the week of April 19, Palensky said.

Karier made a motion that the Council authorize the Executive Director to negotiate two contract amendments to move \$20,020 from the Council's contract with the Washington Department of Fish and Wildlife to its contract with Yakima County for development of the Yakima subbasin plan. Eden seconded the motion, which passed unanimously.

Eden made a motion that the Council meet in executive session at the call of the Chair to discuss matters subject to the organizational and procedures exemption. Cassidy seconded the motion, which passed unanimously on a roll call vote.

Meeting adjourned at 2:30 p.m.

Approved May 13, 2004

/s/ Melinda S. Eden

Vice Chairman

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