

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 Big Sky, Montana

**August 10-12, 2004
Minutes**

All were present. The meeting was called to order by Council chair Judi Danielson at 8:05 a.m. on August 11, and adjourned at 11 a.m. on August 12.

Melinda Eden moved that the Council add to the agenda of the meeting a discussion of the status of and issues related to the start-of-year 2005 fish and wildlife recommendations; find that Council business requires this discussion; and find that the earliest notice possible was given in the revised agenda distributed last week. Gene Derfler seconded, and the motion passed unanimously on a roll-call vote. Eden moved that the Council meet in executive session at 4:30 pm on Wednesday to discuss internal personnel matters. Ed Bartlett seconded, and the motion passed unanimously on a roll-call vote.

Ed Bartlett, chair of the Fish and Wildlife Committee, reported the committee discussed staff progress on reviewing subbasin plans and getting started on the FY 2006 fish and wildlife budget. We heard a staff presentation on the fish habitat land acquisition process and discussed the recent summer operations decisions, he said. One topic that came up was a suggestion from Bob Lohn of NOAA Fisheries that the Council co-sponsor a symposium on "scientific knowns and unknowns," which could help address what kinds of things could be done in the next operating year, Bartlett stated. There were a lot of questions about who would pay for the symposium and how it would be structured, but there was support for holding it, he said.

Jim Kempton, chair of the Power Committee, said that some members of the committee had met with the Pacific Northwest Utilities Conference Committee (PNUCC) the previous week, and that the Power Committee discussed the questions about the power plan that PNUCC had asked. PNUCC is interested in how the plan reflects what utilities are doing in their Integrated Resource Plans, how the plan is to be used, and in the role of Bonneville in developing conservation, he noted. As we reviewed draft parts of the plan, we discussed in detail most of the issues PNUCC brought up, Kempton said.

1. Council decision on Council budget for Fiscal Year 2006 and revised Fiscal Year 2005 (Council document 2004-06):

Jim Tanner, administrative officer; and Sharon Ossmann, business manager.

We sent the Council's revised FY 2005 and FY 2006 budgets, both about \$8.7 million, out for comment, but no comments were received, said staffer Jim Tanner. Eden moved to adopt the budgets, Karier seconded, and the motion passed.

2. Briefing on Council long-term budget requirements:

Steve Crow, executive director; Jim Tanner, administrative officer; Mark Walker, director, public affairs; and Sharon Ossmann, business manager.

Staffer Mark Walker reported that Bonneville has created a working group within the agency to address the possibility of changing the formula for setting the level of the Council's budget.

We've provided the group with information on how the Council does its budgeting, and we will meet with them next week, he said.

3. Review the schedule including public hearings for development on the Fifth Power Plan:

Steve Crow, executive director, Dick Watson, director, power division; and John Shurts, general counsel.

Our schedule calls for the Council to release a draft of the Fifth Power Plan in September and approve the final in December, said staffer Steve Crow. The Power Committee has asked for some additional sensitivity analyses for the plan that may affect the schedule, but we don't know to what extent yet, he told the Council. The need for these analyses outweighs whether the schedule slips slightly, said Jim Kempton. Is this the result of the meeting the Power Committee held with PNUCC? Council chair Judi Danielson asked. "In part," Kempton replied.

We may need to have an additional Council meeting in September, Kempton noted. Crow said that hearings on the draft plan would be held in Portland and Spokane during the week of October 18, in Missoula October 14, and in Boise the week of October 25. We will probably hold more hearings, and we've already had a request to have one in Seattle, he added.

4. Briefing on baseline analysis, sensitivities and scenarios for the Fifth Power Plan:

Dick Watson.

Staffer Dick Watson reviewed the methodology used to develop a portfolio analysis for the power plan. We are modeling combined-cycle and single-cycle combustion turbines, conservation, and demand response, as well as wind and coal, west of Montana and in Montana, he said.

Are there many single-cycle combustion turbines in the region? Larry Cassidy asked. Not yet, but we are starting to see more people look at them, replied Watson, adding that Idaho Power is currently building one.

The model, Watson said, is searching for plans with the lowest cost for a given level of risk, and the primary types of risk the model looks at are market risk, fuel risk, and carbon control risk. What counts is the action plan, which lays out what needs to happen over the next five years, he explained. We think it should call for aggressive conservation, verify and develop demand response, include pilot wind projects, and prepare for large-scale development in the next decade, Watson said.

In the modeling, conservation has remained stable on the least-cost, least-risk side, and that's what driving the plan along this line, commented Kempton. A lot of the deferral of major resources in the region is based on the assumption that we will gain this large amount of conservation on a year-to-year basis, and if that doesn't occur, "the plan doesn't work very well," observed John Hines.

Watson said the plan has a "caveat" that recognizes some utilities are resource-short and will need to acquire additional resources sooner. They may choose "not to purchase or purchase from surplus capacity in the region," he indicated, a choice that in some cases may be dictated by transmission constraints. We are trying to acknowledge that some utilities are doing things now for individual reasons, even though it doesn't appear the region needs power, according to Watson.

He explained the sensitivity test that looked at "what if the region does less conservation?" If conservation acquisition were constrained to 50 aMW a year, costs would increase by over \$1.5 billion and risk would increase by \$2.5 billion to \$3 billion, and some coal would be developed in the region, Watson said. We will do more sensitivity analyses on this topic – we've found that 75 aMW a year of conservation also imposes "substantial penalties" on the region, he noted.

In the coming month, the Power Committee wants to get a better understanding of all the variables, including conservation, that influence the modeling, said Hines. That's where the skepticism in the utility industry comes from, he added. Right now, we are a ways from saying "what a plan should be," Hines stated. I need a better understanding of the assumptions driving this model – "do they meet the smell test?" he said.

Watson explained the results of other sensitivity analyses; for example, having no demand response in the plan could increase costs by \$300 million to \$500 million. Gas price increases of \$1.50/mmBtu would mean more wind is developed or is developed sooner, and there's a bit more conservation, but no coal, he noted. We think the gas prices we are using are right, but we did this analysis to respond to criticism we've gotten, Watson said.

The big uncertainty is CO2 emissions control policy, and if Congress were to act on this, it would have a significant effect on the plan, he continued. Restrictions are likely, but how soon they will occur is anyone's guess, Watson added. This is truly a policy call for the Council on when something might be implemented, commented Hines. I agree, and the plan will lay out alternatives on this issue for comment, Watson said.

Staff will be doing more sensitivity analyses on carbon penalties, conservation acquisition, the effect of potential incentives to the aluminum industry, and coal, he explained. We've gotten new information to model relating to coal – on the potential for more efficient technologies, on a lower price, and on lower transmission costs, Watson said. "That will keep us busy over the next couple of weeks," he stated.

When we met with PNUCC, we found that "our stakeholders have a different idea of where the plan should go," said Gene Derfler. Utilities don't like telling customers "don't use my product" – it's a real problem for them, he stated. And if they reduce their power consumption, and Bonneville goes to a tiered rate system, they'll have to pay more for additional power later on, Derfler said. They think conservation requires a lot of upfront costs, and they would like to see a net present value analysis of conservation acquisition over the next five years, he stated. "That's a good idea," Derfler said.

PNUCC asked the Council to put utility IRPs into our model and look at the effects, he continued. "We have to be leaders in the field, but if you look behind and have no followers, you have a problem," Derfler said. "We either need to get our plan in line with theirs or theirs in line with ours," he added. In addition, our plan doesn't address transmission over the next 20 years, and that's a huge concern, according to Derfler.

We have looked at the upfront costs to utilities and have talked about the plan following the IRPs, responded Kempton. The Power Committee didn't think the plan should be built on the IRPs, but we should try to see where they fit in our planning, he said. Picking the right plan is a function of plugging in the best estimates and listening to the comments we get, Kempton stated. "We're getting a sense of where we are and what we have to look at," he added.

Conservation in the plan has a rate impact of less than 1 percent, noted Tom Karier. "That seems reasonable," he said. The region is doing a lot of conservation because it's the least-cost, least-risk resource, and the utilities are doing it for the same reason, Karier stated. "The Council may be a little ahead of them, but not much," he added. We need to keep testing the numbers, but the track the plan is on is politically feasible, Karier concluded.

"Every plan has been a stretch for the utilities with respect to conservation," said Watson. But there was 1,500 aMW of conservation in the last plan, and in this plan, it's 2,400 aMW, Hines pointed out. Avoided costs are much higher this time around than last time, responded staffer Charlie Grist.

5. Review of draft chapter on resource adequacy for the Fifth Power Plan:

Dick Watson.

Watson explained the historical perspective on resource adequacy in the Northwest and two metrics for physical adequacy: load/resource balance and loss of load probability. The plan's analysis also looks at "economic adequacy," so the portfolio model seeks resource plans that minimize costs for a given level of risk, he said. The results we are coming up with seem to call for more resources than are required for physical adequacy, Watson pointed out.

We need to develop a regional adequacy standard that works for an energy-limited system like ours and fits in the context of the Western interconnection, and we need to work toward standards for the rest of the West so we can count on what they do as well, he said. Council members asked staff to explore California's adequacy standard, how it compares to what the Northwest is doing, and its implications for this region. The adequacy standard for the Northwest needs to be fleshed out in two ways, Hines said: Is 3,400 MW truly available if utilities need it? and how can we assure the Northwest of an adequate power supply in the long term?

Watson said the options for a standard are: data standards, metrics, voluntary targets, and enforceable standards, and he pointed out there are different load service levels at which a standard could be applied, such as the Western Electricity Coordinating Council (WECC) as a whole, WECC subregions, or individual load-serving entities. We recommend the draft plan be used to initiate a dialogue on physical versus economic adequacy, and that we continue to work through the WECC toward coordinated, voluntary, sub-interconnection physical targets as a minimum, Watson told the Council. We should also work with Bonneville, utility commissions, and load-serving entities on consideration of economic adequacy through IRP processes, he said.

6. Review of draft chapter on generating resources for the Fifth Power Plan:

Dick Watson.

Staffer Jeff King explained what kinds of generating resources the plan looks at and the criteria for resource development. He noted that the plan shows 5,000 MW of wind power is available, 10 times more than is installed now in the Northwest. This number has been questioned by some, but 3,603 MW of capacity has been proposed for the region since 2000, King said. If the federal Production Tax Credit, which expired at the end of 2003, were to go back into effect, some of these wind plants would be built right away, he stated.

King pointed out that this plan adds three new "risk factors," global climate change policy, renewable energy incentives, and the green power market, in addition to the traditional factors of loads, power markets, fuel prices, and plant availability. He said the West Coast governors are discussing actions that could be taken to reduce CO₂ emissions and that there is increasing agreement in the business community about the need for action on the issue, citing a recent Business Week cover story.

The cost to control CO₂ is uncertain, King stated. The plan's base-case assumption is that the probability of some level of state or federal CO₂ control increases to 80 percent by 2024, and the average cost across all futures increases from zero to \$12.50 per MWh, he said.

We think the Production Tax Credit will be renewed fairly soon and will probably be extended beyond wind to other renewables, according to King. We assume its average value is \$6/MWh, he noted. There is a market premium currently commanded by "green" projects, and the plan assumes green tag values average about \$6/MWh, King said.

Our analysis found no need for new generating resources this decade, and that there is a current surplus of generating capacity and an abundance of cost-effective conservation available, he continued. Individual utility situations may differ because of particular geographic or

transmission characteristics; for example, a utility may already have too much natural gas risk, King explained. Individual utilities may be in resource deficit or may have incentives to own or build their own resources, rather than to purchase power, he said. Some individual projects, such as industrial and commercial cogeneration, may be cost-effective prior to 2010, King added.

There's a need to remove impediments to small-scale renewable projects, and when bulk power supplies are needed, combined-cycle gas plants and wind are the most attractive, he said. Coal appears in the plan if conservation potential is assumed to be limited and there's a low probability of future CO2 control requirements, according to King.

While the availability of low-cost transmission from Montana is unlikely to change these conclusions, we are attempting to arrive at a consensus on costs and transfer capacity, he said. "Why is it unlikely to change the conclusions?" Kempton asked. It depends on several things, such as the potential for transmission upgrades and whether we use a lower cost of coal at the mine-mouth, King replied. We need to do a sensitivity analysis on this before we kick it out to the region, Kempton urged. Hines said there are some studies going on now that will provide more data on the transmission issue.

The plan says there's a need to secure options to develop combined-cycle gas plants and wind beginning in 2011 and a need to resolve uncertainties regarding large-scale wind power development, King continued. Utilities are very interested in wind, and "utility momentum is there to get more wind than may be necessary in the next few years," he said. King suggested utilities should think of their projects as learning opportunities to improve understanding of issues like large-scale wind integration costs, the effects of geographic diversity, and the capacity value of wind. Wind projects will get built – it's getting the data collected and analyzed that is the challenge, he noted.

7. Update on subbasin planning adoption process:

Lynn Palensky, subbasin planning project manager; John Ogan, senior counsel; and Peter Paquet, manager, wildlife and resident fish.

Staffer Lynn Palensky updated the Council on subbasin planning progress. "We've been working hard all summer reviewing subbasin plans," and we are trying to finish all the reviews of all the plans this week, she said. The reviews consist of two or three-page written summaries of each plan and its approach, plus a detailed checklist based on review criteria for the plans, Palensky explained. On August 13, we will start reviewing the subbasin plans against the adoptability criteria staff put together, she reported. We will be looking for issues directly related to "whether a plan can cross the finish line or not," Palensky said.

We will meet with subbasin planners at the end of August or early September to talk about the issues they need to respond to or remedy, she stated. We have \$770,000 left over that we could spend for that "response loop," Palensky noted. We have agreed with Bonneville the Council can work with seed money of \$100,000 to get started, she noted.

Palensky asked for a Council "head nod" to permit moving forward on the scope of work for the \$100,000, and the Council gave its approval. Later, we'll come back to you with a more specific scope of work, she said.

We have been using the plans to shape a picture on the relative pace of fish and wildlife project implementation, looking at different categories like habitat, said staffer Doug Marker. The question of allocating funds for subbasins lies before us, he added. The fish and wildlife Committee wants to get started, and we'll be looking at principles for allocation, rather than dollar amounts, said Bartlett.

By this Friday, we'll have received all the comments and the Independent Scientific Review Panel's (ISRP) reviews of the plans, said staffer John Ogan. In the ISRP presentations on the plans, we'll likely see certain issues emerging, he noted. There are three to six issues that hit 75 to 80 percent of the plans and that bear on our ability to adopt those documents, Ogan said. We will meet with the coordinators about those issues, he continued. For some, we may not want to "attempt a fix" in the short time frame the Council has set for getting to plan implementation, Ogan said. For example, the ISRP tells us there are a fair number of plans that are lacking in their monitoring and evaluation (M&E) programs, he noted. Since the region is doing a lot on M&E, we may propose to those subbasins that they should link up with the regional effort in order to remedy their problem in that area, Ogan explained.

As we go through the plans and apply our adoptability criteria, we've invited observers from Bonneville, NOAA Fisheries, and the U.S. Fish and Wildlife Service, he pointed out. When we're done, we'll report to the Council on how and what we did, Ogan said. Eden complimented staff on doing a good job managing the funds for the effort. It was done efficiently and cost-effectively, and we kept track of the dollars, she said. And finished the work on time, added Danielson.

Is the \$770,000 enough to do the response loop to bring plans with problems back on board? Kempton asked. We'll have to see the ISRP reports on the plans before we can answer that, replied Marker.

For subbasin plans determined to need longer-term fixes, how will the prioritization and funding of those take place? Kempton asked. That will be part of the future project selection process, replied Marker. That's what the draft fish and wildlife amendment process in November will cover, he added.

Marker pointed out the Regional Coordination Group (RCG) may be reconvened after the ISRP reports come in. It may be useful for them to make some recommendations to the Council, he said. The remanded BiOp will be coming out in the middle of our doing all this, Marker noted. The RCG may need to address how the BiOp and what we are doing fit together, he added.

8. Review of budget proposal on Fish Passage Center:

Rod Sando, director, Columbia Basin Fish and Wildlife Authority; and Michele DeHart, manager, Fish Passage Center.

Cassidy, chair of the Fish Passage Center (FPC) Oversight Board, explained that the FPC has requested a \$145,000 increase in its budget, which breaks down into three categories: 30 percent personnel and benefits, 30 percent computer hardware and software upgrades, and 30 percent increases in office costs, such as rent. He said the board discussed the request with Michele DeHart of the FPC in July, and she indicated the FPC is working hard to find a new location,

which could save money on rent. After the meeting, Cassidy said he polled O-Board members by e-mail asking if they support the FPC increase, and all but one did.

Rod Sando of the Columbia Basin Fish and Wildlife Authority (CBFWA) pointed out that the FPC received \$50,000 less than it requested in its FY 2004 budget. This year's request "represents the accumulated problem of tight budgets," which he admitted "has added up to a large number."

"I'd like to have the Council conduct a review of the FPC's budget," said Derfler, noting in particular the fact that the FPC operates under the personnel rules of the Pacific States Marine Fisheries Commission (PSMFC). The FPC is an advocate for fish managers and tribes, and it does a good job at that, he stated. Derfler said that the Data Access in Real Time (DART) program at the University of Washington produces data that is "duplicative" of that produced by the FPC. The FPC does direct field acquisition of data, while DART doesn't, and DART uses the FPC field data, responded Sando.

DART could do the same work – "the FPC is not the only agency in the world that can do this," Derfler said. There needs to be a review to see if there's a better way to do this at less cost, he added. Kempton asked how the FPC had come to be put under the auspices of the PSMFC, with its personnel costs defined by federal guidelines, but funded by the Council. DeHart said Bonneville and the Council agreed in 1983-84 to have PSMFC be the FPC's project sponsor because it was the least-cost option and that there have been several reviews of the arrangement since then, with the last one taking place in the late 1990s.

What's the percentage increase for federal salaries? Karier asked. Last year, the total overall federal increase was 4.6 percent, DeHart answered. We are working with the PSMFC to reduce the budget shortfall for 2005, and it is possible federal salary rules could be waived without downgrading positions, she added.

This request looks like a 10 percent increase, observed Karier. He questioned an assertion in an FPC memo that, without the 2005 funding increase, "data requests and technical information requested by the public at large will by necessity be eliminated." FPC activities are completely integrated, and not having the hardware and software updates will affect requests from the public and from agencies and tribes, DeHart said. We would have trouble responding to requests as quickly as we do now, she added. Your memo says "eliminated," responded Karier. If the staff is reduced, it would eliminate responses to public requests that take a lot of time to do, DeHart said. Public access to the website won't be eliminated, but the website will be less reliable, she noted, adding "we're having trouble with attacks by hackers."

The data collection function is important to the region, but we need to see if it can be done in a more efficient and effective way, commented Hines. As for the budget, we've "flat-lined" all program budgets and asked project sponsors to absorb costs, he said. Would approving this increase set a different precedent? Hines asked. We are discussing the issues behind the budget request, not making a decision on it today, said staffer Doug Marker.

It's worth looking at whether this information could be gathered by other means, and DART comes to mind, stated Derfler. The FPC is an organization that will do anything you want it to do, within the protocols of good fish science, said Cassidy. "But if you want to look at alternatives, fine," he added.

When does the contract renewal take place? Danielson asked. December 1 is the start date, replied DeHart. Danielson suggested the matter be held over to the Council's October meeting. Between now and then, Cassidy said he would talk to PSMFC to find out more about the history of its association with FPC. That will also give Michele time to try to find less expensive office space, he noted.

The bigger decision, Cassidy said, is whether the FPC is meeting the requirements of the fish and wildlife (fish and wildlife) program and what the Council wants to see from the FPC. We've discussed this before, and that's because "some of the data coming out of the FPC isn't what some members of our organization want to see," he stated. The fish managers drive most of the decisionmaking at the FPC with respect to data, Cassidy added.

Danielson asked about the FPC's hacking problem. DeHart said the FPC data system has endured over 400 attacks per month "by hackers, viruses, and worms" since January 2003. We found that "one of our main servers was being used for an illegal internet business," she noted. We haven't been able to upgrade to Microsoft products with better security, DeHart said.

Melinda Eden asked about recent reviews of the FPC. The last review included Bonneville, the Council, the Public Power Council, and agencies and tribes, DeHart said. Bonneville paid for an outside firm to audit the FPC data base, she pointed out. The PSMFC does the financial audit, DeHart added. Eden asked about the possibility for cost-sharing. We already have a cost-share with federal and state agencies, and we are exploring other opportunities, DeHart replied.

Hines suggested Derfler write up a scope of work for an evaluation of the FPC, which the Council could discuss in October. Sando said there was an Independent Scientific Review Panel (ISRP) review of the FPC in 1998 that was broader than a data audit. They looked at the overlap between DART and the FPC and said it was only a small amount, he noted.

We need to look at whether there is a better place to collect this information, stated Derfler. Have the FPC's functions changed since the ISRP review? Eden asked, and DeHart said no. The FPC is "a very productive set of people working on very complicated issues with a very marginalized budget," Sando commented.

We need to scrutinize the budgets for all the projects that come before us, said Ed Bartlett. Inflation is picking up, and we have to consider "at what point do we hurt fish and habitat recovery" when we begin to lose people as a result of budget reductions, stated Cassidy.

Danielson suggested Council members review the data audit results and the ISRP report on the FPC. "I'm thinking of appointing a few Council members to look deeply into this before the October meeting," she said.

9. Report on status of long-term Bonneville fish and wildlife funding agreement:

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

We continue to work with Bonneville, tribes, industry representatives, and others on the long-term fish and wildlife funding agreement (MOA), said staffer John Ogan. Staff has put together

a “straw draft” of the MOA, which is organized around the funding commitment, he pointed out. When we reach agreement on a funding commitment, Bonneville would carry that into the rate case and other processes, Ogan said.

What’s the time frame for the budget? Derfler asked. It would take effect in FY 2007, but we want to get a number by this September or October, replied Ogan. We wanted to have the numbers ready before the subbasin plans came in, said Danielson. We’ve slipped, but now we need to move quickly, she stated.

Customer groups are starting to weigh in with some principles for the MOA, and the tribes are very interested, Marker noted. Working from a matrix that compares the 1996 MOA to current procedures, he outlined several management and accounting issues for the MOA. How is subbasin planning related to this? Hines asked. The funding allocations should be done through the Council’s process, not negotiated in the MOA, replied Marker. Don’t we have to identify the total amount for subbasin planning before the MOA? Hines asked. Another work group is trying to “divine cost estimates from the subbasin plans and aggregate them up to a number for the MOA,” replied Ogan.

We’ll have a cap in the MOA – there’s a limit to what Bonneville can give us, said Cassidy. I want an understanding of what we think is adequate and efficient to implement the fish and wildlife program, stated Hines.

Another MOA issue involves whether to distinguish capital from expense, Marker said. We recommend the MOA budget treat them as a single line item allowing Bonneville flexibility to manage to financial requirements, he explained. Bonneville will have to figure out how to respond to that in developing its rates, Marker noted.

Are you talking about taking the cost of Bonneville’s fish and wildlife budget out of the direct fish and wildlife program? Cassidy asked, and Marker said yes. Customers have wondered what that would do to the transparency of Bonneville’s costs, but that’s the direction we are thinking of going in, he added. Another major issue involves appropriated repayment costs, Marker stated. Bonneville calls this “plant-in-service,” and the amount is \$300 million, he said. These are appropriations made, but not yet put on Bonneville’s books, according to Marker. “It’s a big detail,” and the MOA should indicate how those costs will be treated, he added.

Staffer John Shurts said the MOA funding work group he is leading is engaged in “the most macro of macro-level budgeting.” It is trying to estimate the level and pace of effort expected in each of the broad fish and wildlife program categories over the next five years if the subbasin plans were implemented, he explained. The work group’s purpose is not to determine relative priorities of work in each subbasin or between subbasins or to allocate funds, but to project how the work in the subbasin plans might change, compared to current levels of program activity, according to Shurts. This would provide a way to estimate overall program funding needs for the next rate case and the MOA, he said.

Habitat is the hardest program category to estimate, Shurts noted. We have enlisted the help of subbasin planners to get very rough estimates, he said. How do you avoid the “coyote being in charge of the chicken house” with that approach? Cassidy inquired. We aren’t asking for cost estimates, but rather level-of-work estimates based on “what are you trying to achieve?” Shurts

replied. When we get the information back and aggregated, the Council will be able to see how it relates to the current fish and wildlife program, he said.

We may need a work session of subbasin planners to produce these estimates, Shurts continued. We have asked if this could be done through one meeting in each state, he added.

Cassidy pointed out that when Washington State's Salmon Funding Recovery Board conducted a prioritization process "what our watershed groups ranked high, the science reviews ranked low." That could happen in this case, he said. I call it "watching out for painting the courthouse in the process of saving fish," Cassidy quipped.

We are trying to develop a cost estimate that the Council can represent as an adequate commitment, said Ogan. This is very high level, but staff thinks it is a preferable approach to "just pushing numbers back and forth across the region," he added.

When do you want comments back from subbasins? Hines asked. The end of August, so there is time in September for reactions to the estimates before the rate case, replied Shurts.

We will be setting up a mechanism to get feedback on the staff's draft MOA document, Ogan said. Danielson asked the Council's executive committee members to be the first point of contact on this issue for each state.

10. Briefing and discussion on proposal for expanded mainstem implementation forum:

Doug Marker and John Ogan.

Staff presented a proposal to change "the configuration, expectations, elements, and procedures" of the mainstem implementation forum (Regional Forum). According to a staff memo, the forum would be reconfigured to two levels, an Executive Committee made up of regional executives, along with representation from tribes, states, and the Council, and a technical/management group that would combine the existing Technical Management Team (TMT) and Implementation Team (IT) to "trim out redundancy."

Having participated in the Regional Forum process this spring, I was struck by how much duplication there is, Hines said. It's a tremendous waste of resources, he stated. The same people are on the TMT and the IT, so consolidating them would be worthwhile, Hines said. It would be good to send this proposal out and get some regional feedback, he added.

We should make it clear that we are not trying to change the recognized authority of the federal executives themselves, said Bartlett. I'd like to hear from people in the region about whom they think should be members of the Executive Committee, he stated. The big change in this proposal is that the Executive Committee would not be an appellate group from the TMT and IT; instead, it would play a "preventive" role to try to head off future disputes that might otherwise arise, Bartlett explained.

Karier noted that the memo says the new forum should "reject the collaborative decisionmaking model" and said, "I thought that's what we encourage." What does this proposal provide that's

useful? he inquired. There isn't a collaborative decisionmaking model now –the federal executives make the decisions, replied Hines. We think there is a legacy of different expectations about the forum in the region that is handicapping efficient decisionmaking, Ogan said.

How is this proposal clearer? Karier asked. It is trying to shift the focus to a strategic planning group to avoid in-season disputes, replied Ogan. In the 2000 fish and wildlife program and the 2003 mainstem amendments, the Council proposed a modification of the Regional Forum, and “this is the detail that would move that proposal forward,” he explained. We are saying the existing structure has shortcomings and is forced to be a dispute resolution process, and it is not doing that very well, Ogan added. There are other interests on the river that are affected, but aren't represented in the existing Regional Forum, he said.

Some aspects of this make a lot of sense, and it would be good to give this some hard thinking, Karier commented. What would this change provide that can't be done by this Council? Cassidy asked. There are some issues that can be helped by “proactive thought” by a broader group than just the Council, responded Hines. My hope is that the new structure could address larger issues before they become a dispute, he said. Now, when the TMT can't reach agreement, it kicks the decision forward to the IT, but the same people are on the TMT and IT, Hines stated. “It's a waste of time,” he added.

Karier said past efforts like the Three Sovereigns faded because the functions the group would take on were part of the Council's functions and authorities. He suggested a more informal approach, such as holding a series of workshops.

Kempton noted that the legislatures are starting to look at mainstem management issues. “I'm concerned this will morph into the same thing the legislative group is looking into,” he said. I know everyone is dissatisfied with TMT and IT, but “sometimes it's better to let sleeping dogs lie,” Kempton stated.

This proposal is different than broad governance proposals like the Three Sovereigns and the Columbia Basin Forum, said Ogan. Those didn't get much further than discussing “who gets a seat at the table,” he stated. The Council gave staff the go-ahead to meet with the action agencies about the proposal and report back.

11. Discussion of the Banks Lake Drawdown alternatives:

Bill McDonald, regional director, Bureau of Reclamation.

Bill McDonald, regional director of the Bureau of Reclamation, explained the agency's June decision on drawdown of Banks Lake in August. The two alternatives we analyzed arose from a Reasonable and Prudent Alternative (RPA) in the Biological Opinion (BiOp), he said. The RPA advised Reclamation to “assess the likely environmental effects of operation of Banks Lake up to 10 feet down from full pool during August,” according to McDonald. This alternative, an additional five feet of drawdown compared to the no action alternative, would provide 127,200 acre-feet of water to increase the flow of the Columbia River at McNary Dam by about 1 to 2 percent in August, he noted.

In its EIS, Reclamation concluded that “the very small incremental benefit to ESA-listed salmon and steelhead associated with the contribution from the drawdown of Banks Lake, 1 to 2 percent of the flow objective at McNary Dam, is not sufficient to outweigh the adverse impacts to other resources,” explained McDonald. He described some of the negative effects the additional drawdown would have had on recreation and the local economy, and he noted it would have caused a net loss of 8,000 MWh on the Federal Columbia River Power System. The tribes told us they were concerned the drawdown would increase wave action that could expose cultural objects to damage and looting, McDonald said.

I also weighed the “positives” for listed fish, he continued. A NOAA Fisheries study showed that the difference for the fish “would be too small to detect,” and another study showed that one to 10 fish might benefit, McDonald said. “Given the lens of the National Environmental Policy Act (NEPA), I concluded the incremental set of negative impacts weren’t justified, given the indiscernible impacts on the fish,” he added. I will be carrying this decision into the remanded BiOp, which we’ll all see in a few weeks, McDonald told the Council.

Hines said he was interested in the presentation on Reclamation’s decision “to explore the parallels” with the recent federal decisions made about Hungry Horse and Libby summer operations. Do you have specific listed species in Banks Lake? he asked, and McDonald replied no. We got different comments from NOAA Fisheries and the tribes than you did, Hines told McDonald. They told us that a 2,000 to 3,000 cfs change at McNary would create significant impacts, Hines said.

McDonald recounted some of the history of federal executives’ decisionmaking, “in the absence of consensus from the Council and tribes,” noting that “we made a lot of decisions qualitatively and crudely” in 2000. We looked at a total package that would get enough flow to avoid a jeopardy call, he said. Between 2000 and the Banks Lake decision, things have been different, but now we are “right back into it” with the remanded BiOp, McDonald continued. Absent a consensus, we’re trying to find a way to make balanced decisions, he said.

How is the BiOp remand going? asked Danielson. “We’re frantic,” replied McDonald. Staff is working 70 to 80-hour weeks to get a draft out by the end of the month, he said. I wouldn’t be surprised if it slips a week or two, McDonald added.

The draft BiOp “won’t have all the I’s dotted and T’s crossed” and will undergo further analysis, he said. Will it have prescriptive RPAs? Danielson asked. We are “reframing” the federal actions that can get us to a no-jeopardy opinion, McDonald replied. We are trying to make actions more outcome-oriented so that, within broad parameters, how you get to an outcome is up to you, he said. We are struggling with things that are not in the federal agencies’ control, like Congressional appropriations, and with other time frames, and there are legal implications, McDonald stated.

“We’re assuming there’s a lawsuit right behind the November BiOp,” he said.

We are anxious to effect an interface with the Council, McDonald continued. If you could bring a regional consensus to us on the issue of social tradeoffs – who will pay and how much – we’d be deferential to that consensus, particularly if the tribes are brought along, he stated.

Karier asked if the new BiOp is moving to a model that requires mitigation for the operations of the power system, but not for the existence of the dams. Yes, we are framing it in such a way that the effects of the existence of the dams belong in the baseline, McDonald replied. The Banks Lake decision is illustrative of what we are struggling with, he added.

12. Council decision on release of issue paper on Chief Joseph Dam Hatchery Program (CJDHP), Project #2003-023-00:

Mark Fritsch, manager, project implementation.

Staffer Mark Fritsch presented information on an issue paper that explains the master plan for the Chief Joseph Hatchery Program. We are seeking comment from the region on the plan, he noted. Bartlett said the Fish Committee endorses release of the issue paper. Karier moved that the Council approve for release the issue paper on the Chief Joseph Dam Hatchery Program and direct staff to give notice of this action and to schedule opportunity for public comment. Eden seconded, and the motion passed unanimously.

13. Council decision on Amazon Basin/Eugene Wetlands Phase Two, Project #1992-059-00:

Mark Fritsch, manager, project implementation.

After postponing action due to unanswered questions at its meeting in July, the Council took another look at funding for a Eugene area wetlands project, sponsored by The Nature Conservancy (TNC). The “Amazon Basin/Eugene Wetlands Phase Two project” seeks Council approval for a change in project scope and an additional \$1.2 million in capital funding to acquire a 65-acre property adjacent to another Council-recommended property acquisition, providing additional wildlife credits for mitigation in the Willamette basin, according to a staff memo.

This piece of property is a high-priority that provides biological and ecological connectivity with other parcels, Bill Maslen of Bonneville told the Council. It is expensive, but it is located in the highly developed Willamette Valley, and the alternative would be missing the opportunity to pick up this parcel, he said. Is acquiring this second parcel a lost opportunity? Could it be done later? asked Hines. We are concerned that the owner is getting restless and could look elsewhere if we don’t act, replied Catherine Macdonald of TNC.

Since land is becoming more and more expensive in some areas, has Bonneville looked into doing offset mitigation in other areas of the basin where land is cheaper? Hines asked. We are currently looking to mitigate in areas where the impact occurred, replied Maslen. How much of this would be capitalized? Bartlett asked. The first piece of property is \$450,000, and the second piece is \$1.2 million, for a total of \$1.6 million, replied Maslen, adding that the entire amount would be capitalized. If we don’t acquire the second parcel, the piece that has already been purchased would be expensed, he said.

In general, Bonneville's capitalization policy bothers me, but here it seems to be a positive, commented Bartlett. He asked about the purchase price. We have an option to purchase at fair market value, and we based the cost on the history of properties in the area, said Macdonald.

The idea of Bonneville doing offset mitigation in other areas is a "slippery slope," observed Karier. "Would you offset impacts in Montana in eastern Washington?" he asked. Our fish and wildlife program emphasizes local mitigation, Karier said. This project looks better now than when we looked at it the first time, he added.

Have we mitigated in this area for the same type of prices? Danielson asked. This is more expensive than what we've done in the past, replied staffer Karl Weist. If the appraisal comes in higher than the price, TNC will pick up the difference between it and the price Bonneville can pay, noted Eden. We're all uncomfortable with the price, but the development pressures in the area are only going to increase, she stated. If we can make this happen and do it with capital dollars, it mitigates in favor of doing it, Eden said.

I got comfortable with this project by asking, "is this a place we should be mitigating," and the answer was yes, Cassidy explained. I asked, "are we paying fair market value," and the answer was yes. "So I support it," he said.

I'm willing to support it, but I would like the Council to rethink its policy on offset mitigation and consider whether more can be done in areas where "prices aren't so out of whack," Hines said. I'm also concerned about the 1 to 1 wildlife crediting ratio, he continued. To get funded, project sponsors have to acquiesce to it, but we as a region haven't adopted that ratio, Hines said. We need a policy on this, he added.

Last month, I thought the price for this was too high, and I couldn't support it, said Bartlett. I'm still very concerned about the price, but I'll support it because it's the right thing to do at this time, he stated. I'm not convinced we should continue to do projects in places where it's just too expensive, Bartlett added.

If this project expansion takes place, how close do you get to full mitigation? Danielson asked. There are 80,000 habitat units in the Willamette that we have to mitigate for, and this project will be less than 10 percent, said staffer Peter Paquet.

One reason we are interested in doing this is because it allows us to "proceed in a notable way" in a less mitigated area, said Maslen. We are still paying less than fair market value for the conservation easement, noted Delwiche.

Eden moved that the Council recommend that Bonneville increase the budget for the Amazon Basin/Eugene Wetlands Phase Two project, No. 1992-059-00, as proposed by Bonneville, in an amount not to exceed \$1,200,000, adding this amount to the current project budget of \$450,360, for an overall total not to exceed \$1,650,360, to be drawn from the FY 2004 capital budget. Derfler seconded, and the motion passed unanimously.

14. Discussion of status and issues with start-of-year 2005 fish and wildlife recommendations:

John Hines, Montana Council Member; and Steve Crow.

Hines kicked off a discussion of how the Council should treat expenses incurred this year for the package of offset measures that would have compensated for impacts to listed fish, had changes to the summer spill regime been made. He recounted that the Council's mainstem amendments called for spill and flow tests on the Columbia River. We said that any damage done to the resource was to be offset, and the offsets were to be paid for from the additional revenues obtained from spill reduction, Hines said.

The fish managers called for the offsets to be done during or prior to the year the spill action would be taken so Bonneville paid \$5.4 million this year for the offsets, he noted. Then Judge Redden, "in his wisdom," denied the spill experiment, and there were no payments for the offsets, Hines said. We've had some lively discussions about whether the offset costs should be reflected in the Council's FY 2005 direct program budget, he noted.

There is a concern about the precedent created by funding undertaken by federal agencies without Council action, Hines stated. I won't propose the offset funding be taken out of the FY 2005 budget because of the amount of staff time that would be needed to re-allocate the money and determine what projects would be "pushed farther down the queue" as a result, he said. But I'd like the Council to consider asking staff to work with the federal agencies as the new BiOp comes out to make sure there is consistency between the offsets and the direct fish and wildlife program and more accountability so next time "ratepayers aren't held out for \$5.4 million," Hines stated.

This was a risk Bonneville and the federal agencies decided to take, commented Danielson. The premise was that the costs of the offsets would be covered by spill revenue, and we had to put the offsets in place before the decision was made, said Greg Delwiche of Bonneville. "It was a risk that we willingly and knowingly bore," he added.

Are you saying there should have been more discussion of this ahead of time? Karier asked Hines. I will maintain that this was outside the direct fish and wildlife program this year, but we need to address this issue for the future, replied Hines. It's unfair to ratepayers to expose them to costs outside the program as they were this year, he said.

The costs of hydro operations have always been walled off from the direct program, noted Karier. It's worth thinking about what would happen if they weren't separate, he stated. For example, hydro operations costs vary a lot from year to year, and in a good water year, if not that much was spent on hydro operations, could that money be made available to the direct program? Karier said.

There's a difference between evaluating cost-effectiveness in the direct program versus hydro operations, he continued. The cost was \$4 million for five fish in the Brownlee operation, and that wouldn't cut it in the direct program, Karier said. But NOAA Fisheries said that was an okay thing to do to reduce summer spill this year, he stated.

We should debate this policy, agreed Cassidy. I have had a problem with the pikeminnow program for some time, he said. We asked the agencies to design the experiment, and the fish managers wanted mitigation handled ahead or in conjunction with spill operations, Kempton said. My criterion for Council involvement is whether an action is something the ISRP has the authority to make recommendations to the Council on, he stated. In this case, it was a federal decision, and we didn't have the ISRP look at the offset projects, Kempton said. We didn't do an ISRP review, so it's not a Council responsibility, he stated.

I talked with the Council about how it should be involved as the federal agencies were looking for mitigation, said Danielson. We tried to keep at arms-length to some extent, she noted. They requested ISRP review, but it didn't mesh with the Council's program, Danielson said. We encouraged the federal agencies to proceed, but "at the end of the day," the decision was "science sanctioned by NOAA Fisheries, funded by Bonneville, and implemented by the Corps," she stated. We encouraged them to look at ISRP-reviewed projects, but we didn't encourage them in what was the best mitigation, Danielson added.

The Council chose not to determine the correctness of the offsets, and Jim's comment about the role of the ISRP is "right on," said Hines. I hope we'll be able to become more involved in next year's spill experiment and can help the region evaluate the merits of the offsets by running them through a more rigorous process, he stated.

That's a good idea, but even then, there would be a dilemma if the offsets have to be done first, said Karier. If the test doesn't go forward, it's difficult to then bump other projects out of the budget, he stated.

The Council was set up to be an entity that stands between the federal agencies and the public, observed Derfler. The public looks to the Council to be "a common-sense-type group," he said. Spending \$4 million to save five fish is not acceptable to the public, Derfler stated. We better start to figure out how to address these issues, he urged.

There were numerous non-listed fish that also benefited from the summer flows, so it was not just five fish, noted Cassidy, and he pointed out that the pikeminnow program has been reviewed by the ISRP. Danielson said with respect to the water from Brownlee, there's been a continual call on that water through the TMT for many years. "It's not as if it was offensive to have that water come down," she stated.

I always have thought that ISRP review should occur with these types of issues, and this discussion argues for doing things now and not waiting until the last minute, said Eden. "Thanks for bringing this up, John" she said to Hines.

15.Update on Columbia River transboundary issues and discussion with Columbia Basin Trust:

Melinda Eden, Council Vice-Chair; and John Harrison, information officer.

Eden reported on a meeting she, Derfler, Kempton, Bartlett, and staff had with the Columbia Basin Trust, the Council's closest counterpart agency in British Columbia, on July 16. We discussed sharing fish and wildlife data, producing publications, co-sponsoring the next

transboundary Columbia River ecosystem management conference in 2006, and the problem of pollution in Lake Roosevelt caused by discharges from the Teck-Cominco smelter in Trail, BC, she said.

We talked about holding a transboundary water management issue forum in Portland in the fall of next year, Eden stated. The forum would cover water management issues that might be addressed in the next Columbia River Treaty if the two countries decide to negotiate one, but we made it clear that the Council has no legal authority regarding the Treaty or treaty-making, she said.

It was a successful visit, observed Bartlett. He noted the support from Canada for the implementation of the mainstem amendments, particularly with respect to summer operations. We learned that they had made progress on things they could do to help us, but of course, the changes in summer operations didn't happen, Bartlett said. Although this year, there wasn't the ability to obtain additional water from Canada, we discussed the possibility that water could be obtained in future years, if it is available, he noted.

We discussed the fact it would be helpful for future Treaty negotiators to be able to understand what has led to the different positions on water issues on different sides of the border, said Kempton. He cited as examples First Nations' positions on issues in Canada and in the U.S., the BiOp and Judge Redden's decisions. The Council could prepare a background document, maybe about 50 pages long, that could be provided to the negotiators when they start Treaty negotiations, Kempton said.

Their organization, like ours, is there to represent the public, stated Derfler. I agree with Jim that we need to keep communications open and to work to the benefit of both countries, he said.

I don't want to throw cold water on better communications, but these will be serious negotiations, and we don't want to undermine them, said Hines. I urge caution and talking to the State Department, he added. Staffer John Harrison noted he had talked with a State Department rep about the July 16 meeting. Our role is to bring people together to talk about river management issues, he stated, suggesting the Council could develop a website with information, as well as the background document.

We wouldn't want it to be perceived that we are providing "unintended bargaining chips," Hines said. We don't ever want to be perceived as negotiating, Danielson added.

This relationship with the Columbia Basin Trust is productive and useful, and it's bound to benefit the region in the long term, said Karier.

16. Council Business:

– Approval of minutes

Eden moved to approve the minutes for the July 13-15, 2004 meeting. Hines seconded, and the motion passed unanimously.

– Annual disclosure of members' outside earned income and notice of availability of financial disclosure forms

Staffer Bill Hannaford explained that Council policy requires annual disclosure of members' earned outside income and said that Cassidy reported income from a consulting contract with a company he used to own. No other members reported outside income, Hannaford said. Disclosure forms will be available to the public on August 16, he added.

Approved September 9, 2004

/s/ Melinda S. Eden

Vice Chairman

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