

Melinda S. Eden
Chair
Oregon

Joan M. Dukes
Oregon

Frank L. Cassidy Jr.
"Larry"
Washington

Tom Karier
Washington



Jim Kempton
Vice-Chair
Idaho

Judi Danielson
Idaho

Bruce A. Measure
Montana

Rhonda Whiting
Montana

Council Meeting Portland, OR

February 15-16, 2005

Minutes

1. Council discussion of and comment on new long-term fish and wildlife funding commitment by the Bonneville Power Administration:

Doug Marker, director, fish and wildlife division; Patty O'Toole, program implementation manager; and John Ogan, senior counsel.

Staffer Doug Marker updated the Council on progress toward developing an agreement that will guide Bonneville's fish and wildlife spending over the next rate period. The agreement will establish a budget amount and financial management rules, he said, noting that Council staff presented Bonneville with a draft agreement last September, and the agency responded with its own draft in October.

Bonneville's draft approached the issues broadly and addressed the agency's overall responsibility for fish and wildlife, Marker explained. We believe our guidance from the Council is to focus more narrowly on the financial arrangements and to consider the broader issues in another way, perhaps as fish and wildlife program amendments, he said. If we can satisfy Bonneville that there is a forum where the broad issues will be resolved, we could get back to taking a narrower track with the funding agreement, Marker suggested.

Staffer Patty O'Toole described the process being used to arrive at a cost forecast, including dividing the fish and wildlife work into categories and defining the "drivers" likely to influence spending in each category – either up or down – during the next rate period.

Biological opinion (BiOp) requirements are the most significant driver in monitoring and evaluation (M&E), O'Toole said. The federal action agencies will submit measures required by the BiOp that come out of funds for the Council's direct program, Larry Cassidy commented. What is the Council's latitude with regard to what the agencies send? he asked.

We ask the Independent Scientific Review Panel (ISRP) to review the projects suggested, and that provides an opportunity to evaluate whether what is being suggested is already being done

or can be added to some other project, Marker responded. There is an opportunity to test whether the work is truly needed, he said.

Jim Kempton asked about Bonneville using the ISRP. How free are we to use the ISRP to review something that is not a Council recommendation? he asked. Can we “farm out” the ISRP to provide an element of comfort to the agency about its projects? Kempton asked. Staffer John Ogan said Section 4(h)(10)(d) of the Northwest Power Act tasked the Council to use the ISRP to see if projects proposed meet a scientific standard. He acknowledged that projects from the action agencies come to the Council in a different way than other projects. The Council tries to treat these requests like others – the difference is that Bonneville is requesting these projects believing that it has to do them to meet Endangered Species Act (ESA) requirements, Ogan explained.

Kempton asked why the ISRP and not the Independent Scientific Advisory Board (ISAB) does the review. The ISRP is tasked with this review, Ogan responded. The ISAB does not have the same expertise and is not the body we would use to look at “project scale” work, Ogan responded.

Tom Karier pointed out that Bonneville has expressed a desire to direct more money to projects on the ground and away from M&E, research, and administration. They want to see money going toward actual work on the ground that will have a direct benefit, he said.

We foresee the Council making a recommendation on these projects, and we hope that Bonneville will listen to our advice, Marker said.

O’Toole went over a list of potential drivers of cost decreases, including cost sharing. Cassidy pointed out that the Council does not have a policy on cost sharing and ought to define one. We have cost-sharing now, but no policy, Marker acknowledged. We thought we should look closer at this with, for example, the Corps of Engineers, he said. We need to remember that cost sharing with the Corps still means that Bonneville picks up the tab, Judi Danielson pointed out.

With regard to O&M requirements for new hatcheries, “these expenses have the potential to eat up everything in the budget,” Danielson said. As we get into the agreement, can we put a cap on them? she asked. O&M costs “will break the back of Bonneville,” and we should worry about that, Danielson stated. How long can we keep doing this? she asked.

If we continue to add hatcheries and the O&M, it has the potential to take a large chunk out of the budget, Cassidy agreed. We also need to ask whether the hatcheries are effective, he said. Eventually, “something could drop out the bottom,” if it is not an effective program, Cassidy indicated.

That’s something to talk about with the fish and wildlife program amendments, Marker responded. Some of the hatchery programs have no ready source of funding other than the Council’s program, he stated.

We are comfortable with the bounds of the cost estimates, Marker summed up after all the categories had been presented. Habitat is the biggest variable for increasing costs, he said. Are you inclined to put forth a number? Council chair Melinda Eden asked. Marker said he was not.

He also said that while the presentation focused on expense, he expected capital would also be addressed in the fish and wildlife funding agreement.

Tom Karier asked why parties are limiting their discussions to an agreement that covers only the next rate period. Why not extend the agreement longer than a few years to provide certainty for Bonneville? he asked. Bonneville is considering long-term contracts, so a longer fish and wildlife funding agreement could parallel the contracts, Karier suggested.

John Saven of the Northwest Requirements Utilities (NRU) kicked off a panel of utility reps by suggesting the Council give its staff more explicit direction to explore the variables and possibilities for change in the fish and wildlife funding arena. It has been my observation that change rarely happens unless policymakers give staff the direction to make it happen, he said. I don't see that being the case here, Saven stated.

I'm concerned about Bonneville's costs, he continued. Our preference rate is 40 to 50 percent higher than it was a few years ago, and "we'd like it to drop," Saven said. "We have a major interest in trying to control the agency's costs," he added.

We support science-based programs for fish and wildlife mitigation and for meeting the Endangered Species Act (ESA), Saven said. "But Bonneville cannot be the punchbowl to fund all activities, particularly those that are not related to the Federal Columbia River Power System (FCRPS)," he stated.

Saven suggested there is no regional consensus on the cost issues. I'd recommend there be no funding agreement unless there is "an escape clause" for customers if the federal agencies lose the Biological Opinion (BiOp) litigation – we may not have the ability to pay for it, he said.

At a recent Power Function Review (PFR) meeting, we found out there are \$300 million in fish mitigation study costs that are the obligation of the ratepayers, Saven said. I took a look at the current direct program, and of the \$139 million budget, it appears \$57 million is assigned to research, monitoring, and evaluation (RME), and another \$6.1 million within specific projects is M&E, he pointed out. Only 50-plus percent of the entire budget is for activities that go directly for fish and wildlife programs, Saven said.

If, on top of this, people say Bonneville customers are responsible for paying to implement subbasin planning, you need to look at alternatives, he advised. Ask your staff to see what would happen if funds were shifted from analytical work to productive projects on the ground, Saven said. "I'd challenge you to explore that," he stated. Saven wrapped up by saying NRU members support the ESA, but there needs to be closure on their responsibility to pay.

Scott Corwin of PNGC Power said his members support mitigation for fish and wildlife, but the questions are how to define it, what's controllable, and what's accountable. He said pressure on Bonneville's rates, especially since 2001 when rates went up by almost 50 percent, is a key concern. Bonneville's combined fish and wildlife costs are 20 percent of total costs, Corwin pointed out. We look at all of the costs, and fish and wildlife stands out in terms of how much it has gone up, he said.

We look at fish and wildlife in terms of the total costs, Corwin explained. That total is about \$690 million a year, which includes the operational costs – "a real cost," he said. One of the

statutory purposes of the hydro projects is generation, and without generation or when you constrain generation, you impact power rates, Corwin stated. You don't get the value the project was designed to give, he added.

The BiOp implementation is a risk for customers and gauging the costs is difficult, Corwin continued. I have concerns about a funding agreement being too long term – we have to be able to limit the risks, he said. According to Corwin, there is also a need to define the obligation of the hydro system for mitigation. We need to define the recovery goals – NOAA Fisheries has been slow about that, he said. We also need to increase the amount of on-the-ground spending to 70 percent or more of the budget, and to get ratepayer buy-in, the Independent Economic Advisory Board needs to have a larger role in that discussion, Corwin stated. He suggested there should be a look at whether all of the production facilities in the region are still viable or whether some may have served their purpose.

Bonneville is moving quickly through the process of setting its costs for the next rate period, Corwin pointed out. We need to know the magnitude of this obligation, he stated. The obligation for paying for mitigation involves all of the Hs, and the way these are being spread to Bonneville seems arbitrary, Corwin wrapped up.

Michael Early of Alcoa said only two of the region's aluminum production facilities are operating today and on a limited basis. Power rates went up significantly in 2001, and we are struggling to maintain operations and the level of employment, he said. "On this side of the table," there is an expectation that the new rate levels are not the new norm and that rates will go down, Early said. They need to go down to allow for economic recovery and rebound, he added. There is a need to balance protecting, mitigating, and enhancing fish and wildlife with providing the region an economic power supply, Early said.

On your matrix of fish and wildlife costs, "there is room for policy," he continued. Many of these items are not ESA-driven, and for "the discretionary spending," there should be recognition for the other side of the equation – economical power, Early stated.

The Council's direct fish and wildlife program feeds into another fish and wildlife spending picture that totals about \$700 million, he said. That is more than the cost of Bonneville's transmission system, and "it's substantial," Early noted. We are working hard with Bonneville to get the overall cost down so we will see a lower rate result, but this is a package, he stated. We are uncomfortable with fixing "a piece of the puzzle" without knowing what the other pieces are: for example, we don't know the outcome of the BiOp, Early pointed out. Bonneville can't know what it can do in terms of discretionary spending without knowing about the mandated piece, he said. I don't think it's reasonable "to lock down" one piece without knowing the others, Early stated.

Danielson asked Corwin about his reference to establishing Bonneville's obligations for fish and wildlife. I'm referring to the Northwest Power Act and the ESA obligations, Corwin responded. We view them all together – they are all costs, he said. For purposes of the funding agreement, the key is more specifically defining Bonneville's obligation, Corwin stated. It would be pertinent to know how the Northwest Power Act mitigation numbers were arrived at – these numbers have always been a mystery, Danielson responded.

Tribal representatives led off with Deb Louie of the Colville Tribes. “We want salmon to come back to our homeland,” he stated, describing how Grand Coulee Dam inundated the fishing grounds at Kettle Falls. Our elders say there were so many salmon in the Methow River at one time that you could cross the river by walking on their backs, Louie said.

The Upper Columbia United Tribes (UCUTs) have an allocation proposal that is reasonable and that relates only to the Bonneville obligation, he went on. The proposal represents only a modest increase over what is currently being spent, Louie said.

Mary Verner presented the UCUT proposal for allocating fish and wildlife funds. She began by describing fish and wildlife losses that occurred, beginning in 1936, due to the development of hydroelectric resources in the upper basin. The UCUTs have developed a list of priorities to address the losses, including adult and juvenile passage, substitution, and fully mitigating wildlife losses, Verner said.

The UCUTs participated in subbasin planning in the Intermountain Province and have established goals, objectives, strategies, and measures to restore fish and wildlife, she said. The UCUT allocation plan addresses only the Bonneville obligations for mitigation and proposes a 10-year funding agreement, Verner explained. The UCUTs are prepared to enter into an MOA in 2006, she stated.

Verner asked the Council to consider the disparity between the magnitude of loss in the upper basin and the benefits provided by the hydro projects, and the extent to which the area has been undermitigated. We have identified specific biological outcomes that can be achieved with the 10-year plan, she said. We can’t stay frozen at the \$139 million budget; even \$186 million, which was the funding level at the start of the last rate case, is not adequate, Verner said.

The UCUTs would like to see “firm walls” around the 70-15-15 allocation for anadromous fish, resident fish, and wildlife within the program, she stated. Verner asked the Council to “wall off” its program from the rest of Bonneville’s \$700 million in total fish and wildlife costs. She said the UCUT tribes would like to meet with the Council to discuss the allocation proposal.

Virgil Lewis, Sr. of the Yakama Nation said the Yakamas have seen harvest on the Columbia River constrained to protect ESA-listed fish. We were parties to the last rate case, but the Council was not, he pointed out. Why wasn’t the Council in the rate case to fight for funds for your program? he asked, noting that the Yakamas sued Bonneville over its last rate order because it violated the Northwest Power Act by failing to provide adequate funding for fish and wildlife.

Bonneville is now doing another rate case, Lewis said. We have done budgets, and implementing subbasin plans will require more funding, he stated. We recommend Bonneville ramp up its program to implement subbasin plans, and we would ask the Council to communicate to Bonneville the need to do that, Lewis said. He pointed out that restoring habitat and fish runs will increase employment in the basin and noted that tribal members are also ratepayers, who will pay for the increased costs of fish and wildlife mitigation.

Fish and wildlife managers want to have a comprehensive program that will restore runs to five million salmon, Lewis said. You should be part of the rate case – we could use your help, he

urged. Lewis said the Yakamas feel the loss of fish and the impact to their culture. “We will never get it back,” he stated.

Jamie Pinkham, Columbia River Inter-Tribal Fish Commission (CRITFC), said the region has not made significant progress towards the goal of five million salmon, and subbasin plans were “to fill the gap.” The plans should, however, have included “measures,” he said. We applaud UCUT for identifying measures, but without measures for other areas, we can’t conclude what the budget should be, according to Pinkham. He said last August, CRITFC asked the Council to call for measures.

Pinkham said there is a growing disparity between the money needed to implement subbasin plans and Bonneville’s fish and wildlife budget. If we are held to \$145 million a year, implementation will spread over 100 years, he said. The tribes are not alone in enjoying salmon production, according to Pinkham. He cited a recent economic study of the benefits that would accrue to Idaho’s economy from restoring salmon production. We owe the region certainty about salmon recovery and a realistic pace of achieving it, Pinkham stated.

2. Discussion of Fiscal Year 2006 federal budget proposals:

Mark Walker, director, public affairs division; and others.

Staffer Mark Walker described two provisions in President Bush’s fiscal year 2006 budget that would have serious impacts on electricity rates and reliability in the Northwest. The first would direct Bonneville and three other PMAs to increase their rates to market level over a five-year period, he explained. The PMAs would be limited to a 20 percent increase in any one year, Walker said.

The second provision deals with Bonneville’s capitalization, he continued. It expands the category of capital debt that would be applied to Bonneville’s total borrowing limit, Walker explained. Under the proposal, if Bonneville backs third-party debt, the debt would be counted toward the agency’s debt limit, he said. The impact would be to push Bonneville up to its total debt limit more quickly, according to Walker. The proposal would also increase the agency’s borrowing cap by \$200 million, he added.

Walker explained the history of PMA privatization efforts in the country, saying they first arose under President Reagan. These initiatives have been turned back, but the issue has resurfaced this year “in a big way,” he said. The proposal has rallied public power to action around the country, Walker said.

Bonneville has three types of long-term debt, he explained: bonds sold for nuclear construction, Congressionally appropriated pre-1974 debt, and bonded debt. When people contend Bonneville’s rates are subsidized, they point to the pre-1974 appropriated debt, Walker said. But that debt was restructured in 1996, with interest rates raised to market, and the region paid a \$100 million premium to do so, he stated.

Jerry Leone of the Public Power Council (PPC) said she was in Washington, D.C. “when the bombshell hit.” The Northwest delegation did “a fabulous job” of responding to the proposal, she said. We seem to have done a good job in responding, and the reaction has been so negative,

the job now is just to monitor the situation, Leone indicated. But there is “lurking trouble” in the long-term debt proposal, she continued. To defend the Northwest, Leone said, we are pointing out that the region’s economy would be devastated by the market-rate proposal – it would cost ratepayers \$2.5 billion over three years – and that three major pieces of legislation would have to be changed to accommodate it. But it is hard to convince the Northeast/Midwest Coalition that there is not a subsidy, she acknowledged.

With regard to whether adequate investments are being made in transmission, Bonneville has socked about \$1 billion into its transmission system in recent years, according to Leone. “It’s horse pucky” to say the agency hasn’t been investing in transmission, she stated.

Pat Reiten of PNGC Power told the Council the Administration’s budget proposal “has more to do with budget gimmickry than good policy.” While it is just an attempt to find a budget offset, “we have to recognize there is a supportive constituency for the idea,” he said. The Northeast/Midwest Coalition has continued its calls for ending a subsidy despite the fact there isn’t one, Reiten said. The Bonneville refinancing measure in 1996 was aimed at heading off the argument that Bonneville had used low interest rates to improve the system and to get rid of the charge that any Bonneville debt was below a market interest rate, he explained.

The proposal “would turn public preference on its head,” Reiten said, adding “we pay for all the expenses of the system.” It is such “an egregious proposal” I can’t believe it will pass, he stated. While the region does not have the Congressional clout it once had, we have a strong presence on key committees, and there is bipartisan opposition, Reiten indicated. “It’s not a partisan issue, it’s a regional issue,” he stated.

Not only would the measure have a negative impact on the economy, there is the question of whether the federal government wants to take on the market role and the market risk, Reiten continued. Can the government survive in that environment? he asked.

“We need to raise hell on this,” Reiten urged. He suggested the region dedicate resources to evaluating the economic impacts and get to the bottom of the subsidy claim.

With regard to the new debt limitation, the Council has staff – Mark Walker and Steve Crow – who understand these issues well, Reiten pointed out. Unless Bonneville had a new program to provide financing capability, the provision would stand in the way of needed infrastructure investments, he said. The proposals will require tracking, analysis, and response, Reiten summed up.

The problem is that the Administration believes the Northwest is subsidized, Karier said. “It is tortured economic logic,” but we shouldn’t underestimate the threat, he said. The limit on Bonneville debt is serious – the proposal “strikes at the heart” of the Northwest Power Act and the Council’s mission, according to Karier.

I’d echo Tom’s comments, Larry Cassidy said. I’ve always viewed electric power as a public necessity – it’s not a commodity, he added. I applaud the idea of cutting debt, but this would be an unfair tax on the Northwest, Cassidy stated.

Jim Kempton asked about the staff’s availability to do an economic analysis. Staffer Dick Watson said staff “could get at the dollars in terms of rate impacts,” but estimating impacts like

job loss in the region would be more difficult. “We could certainly add something with the Council’s weight behind it” that would be valuable, he added.

Kempton made a motion that the Council direct the staff to analyze the economic and operational impacts of the President’s Fiscal Year 2006 budget proposals that would: 1) require the Bonneville Power Administration to sell electricity at market rates, and 2) would require third-party debt backed by Bonneville to be included in its statutory capital borrowing authority limitation. Cassidy seconded. These provisions could have a big impact in the region, and I strongly support the motion, Karier said.

There was discussion about whether the staff analysis could cover impacts other than those on Bonneville rates. My impression is this would be “a quick and dirty” analysis, staffer Terry Morlan said. An analysis of secondary effects would be very difficult and would require outside contracting, he stated. I’d like to see something on the effects beyond power users, Cassidy said. Before we spend too much time on this, I’d caution us to consider whether the President’s proposal is going anywhere, Eden said. The motion passed unanimously.

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

Rhonda Whiting, chair, fish and wildlife committee; Tom Karier, chair, power committee; and Larry Cassidy, chair, public affairs committee.

Fish and Wildlife Committee chair Rhonda Whiting gave a brief summary of the committee’s actions, noting which of the agenda items would be brought forward to the Council later in the meeting and which were being held over to March. Karier, Power Committee chair, went over the disposition of each of the items on the Power Committee agenda, noting there were updates from the Transmission Issues Group and from staffer Wally Gibson on Grid West. Public Affairs Committee chair Larry Cassidy said the committee heard a status report on several pending publications and new members had an orientation that included the Council video and a demonstration of the website.

3. Council decision to adopt track II (blue) subbasin plans:

Doug Marker; Lynn Palensky, subbasin planning project manager; and John Ogan

Staffer Lynn Palensky told the Council 25 of the 29 so-called “blue” subbasin plans are ready for adoption into the fish and wildlife program. Four of the plans are being held for later adoption, she explained: Klickitat, Lower Columbia/Estuary, Methow, and Okanogan. The plans “aren’t deficient,” Palensky said, but are on hold for other reasons.

The blue plans were revised in October and November to address deficiencies staff identified when they were submitted, she continued. The revisions were submitted as supplements to the plans, and the plans now meet the standards of the Northwest Power Act and are adoptable, Palensky said.

She recounted the history of the subbasin planning effort and noted that 59 plans were completed on time and under the \$15.2 million budget. Palensky described the green, blue, and red categories into which staff sorted the plans. The Council adopted 23 green plans in December

2004 as amendments to the fish and wildlife program, the blue plans are up for adoption today, and the red plans, which were more deficient, are on another track, she indicated. There are also four blue plans that will have to be on a different schedule, Palensky reiterated. Does that mean we need another color? Eden quipped.

Staffer John Ogan went over a summary of the plans, public comments, and staff responses to them. With regard to the Clearwater subbasin plan, the Nez Perce asked that specific activities be added to the plan, and our recommendation is not to add the additional detail, he said. Why did you decide against that? Joan Dukes asked. These comments came in after a broader planning group was finished with its work, Ogan replied. It seemed inequitable to let one of the players come in and add detail, and it was out of character with other plans, he said. Where will this next level of detail come in? Dukes asked. It fits best in project implementation, which is the next step, Ogan responded.

The Nez Perce were partners in developing the Clearwater plan and received money to participate, Danielson pointed out. This issue has been around for a while, she added. I don't want to see the Council give up its authority to analyze measures as they come in, Danielson said.

With regard to the Klickitat plan, Cassidy said the recommendation is for a 30-day delay in adoption. I'm reluctant, but the county wants more time, he added. Cassidy said the parties are not close to consensus on the plan, but are working toward it and need more time. He recounted how much effort has been spent on developing the Klickitat plan and said there is great potential in the subbasin.

I'm inclined to agree with the hold, but we have to get the plans adopted, Eden said. Karier explained the delay with adopting the Methow and Okanogan plans as "a courtesy" to give two new county commissioners time to review the plans.

Kempton made a motion that the Council: adopt as amendments to the Columbia River Basin Fish and Wildlife Program the management plan portions of the 25 subbasin plans presented by the staff; include the technical assessments and inventories of these plans as appendices to the program; defer adoption of the plans for the Klickitat, Lower Middle Columbia Mainstem, Okanogan, and Methow subbasins to allow for additional Council consultation with local governments; and direct the staff to give appropriate notice of its actions. Karier seconded the motion. On a roll call vote, all eight Council members voted aye.

4. Update on process issues from subbasin planning:

Doug Marker; John Shurts; John Ogan; senior counsel; and Lynn Palensky.

Ogan offered a status report on the broad process issues that arose related to the subbasin plans. One of the issues is the appropriate level of specificity in the plans, he said. In particular, CRITFC has commented that the plans lack "measures," Ogan stated. We've met with CRITFC and discussed the issue, and "our strong position" is that the plans include measures as referred to in the Northwest Power Act, he said.

These subbasin plans contain more detail and specificity than any other fish and wildlife program we have ever adopted, Ogan stated. Our recommendation is that the Council deal with this issue in its findings and response to comments, he said. CRITFC suggested you have another amendment process to call for measures, Ogan said. These measures are what we call “projects,” and we don’t recommend that course of action, he stated.

What is the CRITFC definition of measures? Rhonda Whiting asked. In their comments, they refer to activities that include a description of who implements and how much it costs, Ogan replied. We would call that a project, he said.

I was under the impression CRITFC members were involved with developing subbasin plans, Danielson commented. CRITFC was a significant participant and was provided considerable funds to participate, particularly in Oregon, Ogan responded. Cassidy noted that if subbasin plans specified who was to be the recipient of money and the amount, it would limit the Council’s ability to consider changes in the future – “it takes away the Council’s flexibility.”

John Platt of CRITFC acknowledged that the tribes were very involved in developing subbasin plans. In their comments, the tribes discussed the requirements of the Northwest Power Act, he said. You have to carefully follow the processes in the Act, and there was not an adequate call for specific activities with the subbasin plans, Platt said. Your technical guidance specifically said not to include projects, he pointed out.

The Council embarked on a \$15 million process that has no specific path for implementation, according to Platt. Subbasin plans do not include specific projects, and the Council should ask for specific projects and budgets, deliberate on them, “and make a decision that is binding on Bonneville,” he stated. Platt said that unless the fish and wildlife program includes measures, the Council is relinquishing its authority and “acting as an advisor to Bonneville.” You are not using your authority with Bonneville, he stated.

Ogan recommended that staff address the issue of project selection in its findings for the fish and wildlife program. He also suggested that as the Council adopts the last group of plans, it outline a process for making adjustments to the plans. With regard to the relationship of the plans to ESA recovery plans, we think it has been clear, Ogan said. We expect NOAA Fisheries will make significant use of the plans – subbasin plans will be used as “a building block” for recovery plans, he stated. We also expect the U.S. Fish and Wildlife Service to use the plans, Ogan said.

Staffer John Shurts went over the issue of how to roll up the subbasin plans into a comprehensive fish and wildlife program. While the program has been good at providing an overarching concept and basic provisions of how to achieve it, and at getting to specific projects, it has been weak at establishing a quantitative set of measures “to see if we are achieving the mitigation objective set in the Act,” he said.

Shurts described how in 2002, the Council constructed a program at three scales: subbasin, provincial, and regional. The provincial level is the logical layer at which to gauge whether we are achieving the objective, he suggested. At this level you provide accountability, M&E, and it’s the level at which you can evaluate cost-effectiveness, according to Shurts. He said the staff is thinking it would be a good idea to have objectives at the province level, and in March, will come back with recommendations.

Bruce Measure said he would have preferred to have a status report on the broad issues before the vote on adopting subbasin plans. We need to look at our ability to address making changes to these plans – I don't know if the issue is being dealt with uniformly, he said.

We've talked about rollup for many months, and it would be a good exercise for staff to go through the plans and add up the quantitative goals, Karier suggested. Until you do that, you don't have a really good idea of the inputs for the provincial level, he said.

"This section is very deep – it's like a swamp," Kempton said of the description of rollup in the staff handout. Recovery isn't a viable option in Idaho, and we've kept it out of subbasin planning, he said. Our goals are mitigation and protection, Shurts responded. Kempton said it should be clear the Council's fish and wildlife program is not the same as recovery.

5. Briefing on funding habitat and artificial production integration analysis:

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

Staffer Bruce Suzumoto briefed the Council on a project to integrate hatcheries with subbasin plans and to develop provincial objectives. The project uses an analytical tool called the All-H Analyzer (AHA), he said. The AHA model integrates hatchery production with habitat conditions and considers the out-of-subbasin constraints of harvest and hydro projects, according to Suzumoto.

The integration approach was tested in workshops last November and with a more recent "paper exercise" that involved the Wenatchee, Entiat, Methow, and Okanogan subbasins, he continued. In describing the exercise, Suzumoto pointed out that the AHA integrates the All-H assessment work and produces results in "a common currency," which is number of adult fish.

He described the AHA model and displayed the results from the exercise. With the inputs, which include information from all of the Hs, the model pumps out the total run size that could be expected long term, Suzumoto said. Results from the subbasins were aggregated to the province level to show how much production and harvest would increase, he explained.

The AHA is a way to "ground truth" what is in the subbasins plans and see how they add up, Suzumoto indicated. The model tells you how far it would take you in terms of productivity if you do all the work outlined for a subbasin, he explained.

Karier pointed out that the ISRP reviewed the model and said it would be inappropriate to use it to come up with recovery levels. Suzumoto said the ISRP comments were very helpful and that work is going on to address them. Unless you get the ISRP questions answered, I don't see how the Council could support this, Cassidy said. We need to know what this will entail in dollars, he added. What about getting competitive quotes? Is Mobrand the only contractor that can do this work? Cassidy inquired.

I thought the ISRP was more optimistic than that, Danielson said. Without numbers like those the AHA model provides, it's difficult for the Council to make policy, she added.

Rob Walton of NOAA Fisheries said numerous fish recovery efforts in the region need "choreography." There is "a collage of processes," and the AHA offers a way to get at

prioritizing actions and gauging whether they are enough, he said. Walton suggested a meeting in the next few weeks to get at some of the questions. This could be a helpful tool, but “it’s not a silver bullet,” he stated. I think we should “with enthusiasm and caution” get the technical groups together for a discussion, Walton advised.

Doug DeHart, USFWS, said he doesn’t think hatchery operations in the basin are broken. Getting everyone together for a discussion is a good approach – we’ll work closely with NOAA Fisheries on this, he indicated.

6. Update on the Power Function Review:

Dick Watson, director, power division; and Doug Marker.

Watson updated the Council on Bonneville’s PFR. The PFR is an opportunity for interested parties to review and have input on the cost projections that will be the basis for the 2007-2009 rate case, he explained. Costs are not typically addressed in the rate case itself, and this is an important opportunity “because this is our one shot at costs,” Watson said.

He noted that a number of technical workshops and management-level discussions are scheduled in February, March, and April. At the February 8 technical workshop on conservation and renewables, Bonneville made clear it is committed to meeting the Council’s conservation targets, Watson reported.

On April 5, the workshop topic is fish and wildlife costs, and on April 20, there is a summary of the workshops and discussion of outstanding issues, he said. The management-level discussions begin February 23, with conservation and renewables on the agenda, and the topic for managers on April 18 is fish and wildlife, Watson said.

In an update on the fish and wildlife workshops, Marker said Bonneville is looking to get more fish and wildlife money dedicated to projects on the ground. Customers are concerned about focusing on the direct fish and wildlife program – they are interested in the overall costs, including operations, he said. Customers are also talking about cost-effectiveness of measures, Marker stated. He added that customers are paying attention to what is coming onto Bonneville’s books from Corps investments. Bonneville must repay appropriated dollars when they are transferred to its books, and about \$300 million have been accumulating as though the Columbia River Fish Mitigation (CRFM) project was one large capital investment, Marker explained.

Is this something new? Karier asked. No, the costs have been accumulating and were accounted for as construction work-in-progress on the books, Marker replied. When a project is completed, the costs are called plant-in-service and are added to Bonneville’s amortization and depreciation costs, he said. No one assumed the CRFM costs would be carried so long without becoming plant-in-service, Marker added. Eventually these costs will come into Bonneville’s revenue requirement and be in rates, he said. Bonneville expects that to happen during the next rate period, Marker noted.

Staffer Charlie Grist ran through a briefing on Bonneville’s proposed conservation budget. Bonneville said in its Regional Dialogue decision it would base its conservation target on the

Council's power plan and has calculated its share at about 50 to 60 average megawatts (aMW) a year during the next rate period, he explained. Bonneville's annual budget for conservation for the 2007-2009 rate period is \$96 million, with \$80 million for new conservation and \$16 million for overhead and special projects, Grist said.

The question is whether that is enough to hit the targets, he continued. Staff estimates it could take at least \$106 million annually and as much as \$140 million annually, Grist said. Bonneville has budgeted \$96 million, and we don't know how much individual utilities will kick in, he acknowledged. It may be enough, but if not, "what is the fallback?" Grist asked.

He went through a list of staff concerns, including the potential for a budget shortfall. Some possible options to fill the gap include improving program efficacy over historic levels, Bonneville increasing its budget, and ensuring that utilities pick up the slack, Grist suggested. We'd like to meet with Bonneville and talk over our concerns, he stated.

Karier reported that the Power Committee discussed the issue and is trying to set up a meeting to discuss the situation with Bonneville management.

7. Presentation on the National Energy Commission report:

Sharon Nelson, Washington State Deputy Attorney General and member of the National Commission on Energy Policy.

Former Washington Utilities and Transportation chair Sharon Nelson joined the Council by phone to talk about the December 2004 recommendations of the National Commission on Energy Policy, of which she is a member. "I was the consumer hat wearer" on the commission, according to Nelson, who now works for the Washington Attorney General and also chairs the board of the Consumers Union.

The idea behind the commission was to present a bipartisan energy plan "regardless of who was president," she said. The panel was very ideologically balanced in its membership, Nelson said, noting that a member of Vice President Dick Cheney's staff participated. Ideological positions have characterized the debate on energy policy, and the commission aimed to forge a compromise to move things forward, she indicated.

The flavor and focus of the Commission's report, *Ending the Energy Stalemate – A Bipartisan Strategy to Meet America's Energy Challenges*, is toward research and development (R&D) to lessen our dependence on other governments for our energy supply, Nelson said. The report has a heavy emphasis on energy efficiency, she said, adding that Ralph Cavanagh of the Natural Resources Defense Council had a major role in drafting the recommendations.

Being from the Northwest, I could not go along with all of the recommendations since there were "atta boys" to the Federal Energy Regulatory Commission for going toward managed competition, Nelson acknowledged. I do not think competition is appropriate for everywhere – the real-time experiences in the West have been a failure and "have visited hardship on the ratepayers," ironically, outside of California, she said.

The Commission will stay in business, with the co-chairs spending this year testifying before Congress and promoting the overall direction, Nelson stated. They hope it can be the centerpiece for national energy legislation, she said.

I'm struck by the similarities between the Commission's work and our power plan, particularly with energy efficiency, Karier commented. What responses have there been and what are the prospects for implementing the goals? he asked. This effort was supposed to be "in the center, so it has gotten some tomatoes," Nelson responded. There has been a lot of editorial response in the media, she added. The recommendations now need leadership, and it's hard to predict the outcome, Nelson indicated. There was a great sense of urgency felt by all of the Commission members, and I'm hopeful some of it will be enacted, she said.

States may move on parts of it even if Congress does not, Karier commented.

8. Report on Northwest hydro conditions and power supply for 2005:

John Fazio, senior power systems analyst.

Staffer John Fazio said the Northwest snowpack does not look good, but things are not so bad in the Canadian portion of the basin, where they are at about 92 percent of average. As of February 8, the January to July runoff forecast at The Dalles was 82.4 million acre-feet (MAF), assuming normal precipitation for the remainder of the winter and the spring, he reported. But chances are the precipitation will be lower than normal, and if it is 75 percent, the forecast will continue to drop and end up around 72 MAF, according to Fazio. Average at The Dalles is 107 MAF, he said.

Are we going to have a problem keeping the lights on? Fazio asked. No, he said. The region is in surplus, and even with 72 MAF, generation would be 1,000 MW above critical, Fazio said. We expect to be in surplus for about another decade, so keeping the lights on is not a problem, he added.

The difference between circumstances now and the 2001 energy crisis is that there is a surplus, and California is in better shape in terms of surplus capacity for export, according to Fazio. There is no danger of blackouts due to poor water conditions or of extreme price spikes, he said. The poor water could, however, cause some increase in electricity prices, Fazio said. The conditions will likely reduce Bonneville's spring and summer spot market sales and revenues, and the region is unlikely to meet the BiOp flow targets, he said. But, Fazio pointed out, we don't often meet those targets. The prospects for meeting the August targets at Lower Granite are zero in simulations that use the entire 50-year historical water record, he said.

Based on rough estimates, the costs of operating the mainstem projects according to the BiOp will be about 10 percent higher than average, Fazio said. If that average is \$400 million, 2005 costs would be about \$440 million, he explained. This will put pressure on Bonneville's finances, but the likelihood of making the Treasury payments is still high, Fazio said.

9. Council decision to approve commercial building Model Conservation Standards:

Dick Watson; John Shurts; and Tom Eckman, conservation resources manager.

The Model Conservation Standards (MCS) for commercial buildings were still outstanding when the Council adopted the Fifth Power Plan in December, Watson said. We had gotten comments that said the MCS were less stringent than the best practices in the region, so we put out a new proposal for comment, he explained. After considering the comments, we recommend going forward with the new proposal, Watson said. According to a staff handout, the proposal bases the MCS for commercial buildings on the better of ASHRAE Standard 90.1-2001, or the most efficient provision of existing codes in the four states, allowing for geographic and climatic difference.

Kempton made a motion that the Council adopt into the Fifth Northwest Electric Power and Conservation Plan the model conservation standards for new commercial buildings released for public review and comment in December 2004, and direct the staff to give appropriate notice of its action. Karier seconded the motion. On a roll call vote, all members present voted aye; Cassidy was absent for the vote.

10. Council decision to approve response to comments on Draft Fifth Power Plan:

Dick Watson; and John Shurts.

Staffer John Shurts explained that the Council must respond to comments received on its power plan. This is not a substantive or policy piece, but it explains how things were dealt with in the plan, he said, noting that the response to comments is a statutory requirement. Kempton made a motion that the Council adopt the response to public comments received on the Fifth Northwest Electric Power and Conservation Plan, with staff changes as proposed, and direct the staff to give appropriate notice of its action. Karier seconded the motion. On a roll call vote, all members present voted aye; Cassidy was absent for the vote.

11. Briefing by Bonneville on implementation of Updated Proposed Action for Biological Opinion for the Federal Columbia River Power System:

William Maslen, director of fish and wildlife, Bonneville Power Administration; and Doug Marker.

Federal action agency representatives briefed the Council on their BiOp Updated Proposed Action (UPA) and Implementation Plan (IP) for 2005-2007. Irrespective of litigation on the BiOp, these are actions needed to help listed stocks, Bill Maslen of Bonneville said. This plan reflects a performance-based approach and is being developed with a lot of regional discussion and comment, he indicated.

Sarah McNary of Bonneville gave an overview of the UPA/IP. These are the actions we propose for meeting the BiOp requirements, she stated. The strategies in the UPA are designed to fill the

survival gap and ensure that hydro system operations avoid posing jeopardy to ESA-listed fish, according to McNary.

The IP is based on a three-year planning horizon and is structured to meet specific performance measures, she said. The measures address limiting factors for salmon that are spelled out in the BiOp and subbasin plans, McNary said. The IP calls for annual progress reports, with comprehensive evaluation reports every three years, she explained. We are on a brisk timeline to issue the draft IP and to get a final out in mid-March, McNary said.

Jim Fodrea of the Bureau of Reclamation said the IP has specific details on implementing measures to achieve salmon life-stage targets. He explained how the actions are prioritized and gave examples of the three-year performance objectives, such as tributary actions for the ESA-listed Upper Columbia evolutionarily significant units (ESUs).

How did you arrive at these actions? Karier asked. Most are identified through some local process – they roll up from local plans, Fodrea responded. Kempton asked about the relationship of the UPA to the Council's program and whether other federal funds are available for the activities. Reclamation has come to us for cost-sharing, he said. Fodrea said Reclamation has a budget that covers a lot of the UPA for that agency. The cost-share from the Council's direct program hasn't been a large amount, maybe \$3 million to \$5 million a year, Cassidy responded.

Right now it looks like the cost-share for BiOp implementation will be about \$3 million for 2005, Maslen said. To the extent Bonneville has to fund projects under the UPA, the money comes from the direct program – we have no other source of funds, he said.

The agencies explained the categories of actions for UPA implementation. We've been working with Reclamation to develop habitat projects in the Columbia Cascade province, and we're looking for Council support for these, according to John Rowan of Bonneville. We'd also like to get Independent Scientific Review Panel (ISRP) review of the habitat projects, which total about \$625,000, before March, he indicated.

How were the subbasins in the Columbia Cascade province chosen? Eden asked. Why are these the most important for habitat under the new BiOp? she asked. These UPA projects all target ESUs that need the most habitat help, Fodrea responded. The Upper Columbia steelhead and chinook have the largest survival gap and need the most habitat work, he said. We worked with NOAA Fisheries to identify the limiting factors that could be mitigated, Fodrea explained.

We have a letter requesting ISRP review of the projects, Kempton said. If we use the ISRP, can we compare these with other projects and decide if they should be recommended for funding? he asked. We'd like to see a close relationship between the UPA projects and what's in subbasin plans, Marker responded. A desirable outcome would be for the Council to be satisfied about the priority of the UPA needs, but if not, I hope Bonneville would give weight to the Council's process, he stated.

12. Review of Fiscal Year 2006 fish and wildlife project review process:

Doug Marker; and Patty O'Toole.

O'Toole explained how staff proposed to determine the amount of funding that would be available for fish and wildlife projects in 2006. After categorizing and sorting the projects according to whether they are likely to be included in 2006 spending, staff came up with \$67.9 million in projects with a "fixed" place in the budget, \$16.2 million in mainstem and systemwide projects, and \$10.9 million for projects related to the UPA for the BiOp, she said. If the budget is \$139 million, that leaves \$44 million for other projects, according to O'Toole.

She went over a multiyear timeline for moving a project recommendation to implementation on the ground, pointing out various reasons for delay, and she offered a diagram of how staff proposes to go into the next project selection process.

Karier presented a list of issues to be considered in 2006 project selection. Project recommendations are one of the most important things we do, and these are things we need to see in this project selection process, he said: subbasin plan implementation, allowing new projects in addition to the BiOp requirements, document accomplishments, scientific review, follow Council's own recommendations, and respond to new information. I didn't see these in the staff review process, and we need to take them into consideration, he stated. I'd like to get a response from staff at the next meeting, Karier added.

Our work plan calls for us to go through many of these questions, Marker responded. We will work on them and get back to you, he said.

13. Overview of Council budget process and long-term funding issues:

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

Staffer Sharon Ossmann went over the schedule for planning and developing the Council's budget. The goal is to adopt a budget by August so it can be included in the Bonneville rate case, she said.

Tanner explained the dilemma the budget formula in the Northwest Power Act poses for the Council. The formula is based on Bonneville's firm sales, and since those sales are declining and Bonneville proposes to sell only the power from the Federal Base System, the Council's budget could be limited to \$6.7 million annually, he said. The current budget agreement with Bonneville is for \$8.5 million annually, Tanner pointed out.

Under the limit, quite a problem develops in 2007-2008, Ossian said. She went over the categories in the current budget and explained the primary components of each.

Kempton said it's important for the Council to make it clear where its budget will stand without the residential exchange. The decision on the exchange was made final in the Regional Dialogue Record of Decision, he noted. If the Council is handicapped from carrying out its requirements under the Northwest Power Act by a lack of funding, it seems Bonneville, in its last business

plan EIS, has failed to analyze a potential environmental impact, Kempton said. We have a significant issue here, and we need to address it straight on, he stated.

Walker said staff met with Bonneville's Council liaison Karen Hunt and members of Bonneville's financial staff. Those meetings will resume next week, he said. The other issue out there is the future role of Bonneville and whether Bonneville will be a smaller agency if its role changes with regard to the power it markets, Walker said. Bonneville thinks if that is the case, the Council needs to rethink its role, he stated. We are caught up in Bonneville's own deliberations about its future, Walker said.

We need to resolve this ahead of the rate case – we need to give Bonneville notice we will be pushing on this, Eden said.

14. Council Business:

– Approval of minutes

Kempton made a motion that the Council approve for the signature of the Vice Chair the minutes for the January 18-19, 2004 Council meeting held in Vancouver, Washington. Whiting seconded the motion. The motion passed unanimously.

The meeting adjourned at 4:40 p.m.

Approved February 16, 2005

/s/ Jim Kempton

Vice-Chair

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