

**Council Meeting
Grouse Mountain Lodge
Montana**

April 12-13, 2006

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Tom Karier called the meeting to order at 1:35 pm on 4/12 and adjourned it at 10:45 am on 4/13. All members were present.

Joan Dukes moved that the Council meet in executive session on April 13 to discuss participation in civil litigation. Cassidy seconded, and the motion passed unanimously on a roll-call vote.

Dukes moved that the Council add to the agenda of the meeting a discussion of a staff proposal for how to implement Power Plan Action Item CNSV-3; find that Council business requires the discussion; and find that no earlier notice was possible. Cassidy seconded, and the motion passed unanimously on a roll-call vote.

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

Rhonda Whiting chair, fish and wildlife committee; Jim Kempton, chair, power committee; and Larry Cassidy, chair, public affairs committee.

Whiting reported that the Fish and Wildlife (F&W) Committee discussed a recommendation to approve final design and construction on the Northeast Oregon Hatchery Facility and within-year F&W project funding revisions. There was a long discussion of issue development for FY 2007-09 project selection, she said.

Kempton reported that the Power Committee discussed the Initiative on Demand Response and Distributed Generation and heard a presentation about carbon dioxide production from power generation. The presentation dealt with how conservation can reduce emissions and ways the region could achieve a net reduction in those emissions, he said. Other issues before the committee included resource adequacy, the status of the Regional Dialogue and the Power Function Review, and BPA's study of the benefits of the DSIs, according to Kempton.

1. Council decision on letter to the U.S. Army Corps of Engineers regarding their flood control reconnaissance study:

Doug Marker, director, fish and wildlife division.

The Council discussed a draft letter to the Corps of Engineers about its proposed Columbia River Fish Mitigation System flood control "reconnaissance study." Bruce Measure made a motion that the letter say the study "would have no demonstrable benefits for fish and wildlife (F&W)," instead of "would have speculative benefits." Rhonda Whiting seconded the motion, and it passed on a 7-1 vote, with Melinda Eden voting no.

Joan Dukes moved to insert a paragraph that says the Council supports efforts by the federal water management agencies to work toward improving forecasts of basin runoff and that reducing forecasting errors could improve both fish and hydropower operations. Eden seconded the motion. Staffer John Shurts said work to improve runoff forecasting should be happening regardless of the flood control study. The motion failed on a 5-3 vote, with Dukes, Eden, and Jim Kempton voting yes.

Measure moved to insert language indicating that the current draft U.S. Fish and Wildlife Service (USFWS) Libby Dam flow augmentation protocol to benefit Kootenai River sturgeon is not consistent with operations for Libby recommended in the Council's Mainstem Amendments -- "operations that were developed with extensive regional review and consensus." Whiting seconded the motion.

Eden said the letter is too long. "It should really be a two-sentence letter" that says the Corps should do a better job of flood control and that ratepayers shouldn't be asked to pay for it, she stated. We defeat the purpose of the letter with three pages of argument, according to Eden. The study should not be conditioned on doing the evaluations called for in the Mainstem Amendments, she added. Eden said she didn't oppose the motion in itself, but she recommended deleting the entire section of the letter dealing with "the science of augmenting river flows." The motion passed, with Eden voting no.

Measure moved to insert language saying that the Council believes the Corps should not proceed "with a study of the magnitude proposed unless the region develops a better understanding of additional flow augmentation indicating potentially beneficial biological effects that could be achieved through flood-control storage expansion and/or flood-control management operations." Larry Cassidy seconded, and the motion passed, with Eden and Dukes voting no.

Dukes moved that the letter say "the Corps should consult with regional interests to develop clearly defined alternative flood-control modeling scenarios with emphasis on changes during average and below-average runoff years." Eden seconded, and the motion passed. Measure moved language saying the Council encourages the Corps "to focus on acquisition and operational deployment of the best seasonal runoff forecasting technology available," and that the Corps should revise the study to reduce its cost substantially and emphasize flood control. The letter also states that the cost of the study, "or any down-sized flood-control study," should not be assigned in any part to a Columbia River Fish Mitigation project purpose. Cassidy seconded, and Measure's motion passed unanimously.

Dukes moved to approve the letter, and Measure seconded. Eden said she would vote to send it, but she pointed out that the only parts of the letter she agrees with are the two paragraphs at the end and the paragraph that Dukes had proposed inserting. The motion to send the letter to the Corps passed unanimously.

2. Briefing on system operation monitoring in Montana:

Brian Marotz, fisheries mitigation manager, Montana Department of Fish, Wildlife and Parks.

Brian Marotz of Montana Fish, Wildlife and Parks reported on preliminary results from the first year of a Council-funded project to monitor effects on resident fish as a result of the Libby and Hungry Horse operations recommended in the Mainstem Amendments. Our goal in operating the reservoirs differently was to put back a semblance of a natural hydrograph, he explained. We found in our studies that sudden reductions in water from reservoir drawdowns reset the system in the river and take out productivity, Marotz said. It takes a month and a half for the productivity to bounce back, he noted.

As a result of the recent operations at the two dams, we are now seeing less fluctuation and that's good biologically, Marotz reported. Fewer fluctuations means greater biological productivity, he said. In the last few years, we've had some of our best years on record, Marotz noted. The good results are thanks to current operations, and "my hat's off to you," he told the Council.

We've put out a lot of PIT tags to enable us to do more study of the effects of operations, according to Marotz. "People are clamoring for the results," he added.

There has been a lot of discussion about operations related to the Kootenai white sturgeon, Marotz continued. We aren't doing monitoring for them, but we are doing tiered flows from Libby for the sturgeon and other fish, he noted.

Marotz said while he didn't know if the Corps' proposed \$30 million flood control study "would get off the ground," it might be worthwhile for the region to do something else. We can have anadromous fish and resident fish benefits if we were to apply Integrated Rule Curve-type operations developed for Libby and Hungry Horse to all the headwater projects in the basin, he suggested. You could apply a mathematical formula to each project -- you could have power generation and flood control and balance the reservoirs from top to bottom, according to Marotz.

Karier asked about the effect on Lake Roosevelt. Grand Coulee would be an issue and some adjustments would have to be made there, replied Marotz. It would be a challenge, but if we could get good at manipulating headwater storage, you could fix the lower basin and the upper basin without hammering Grand Coulee, he said.

3. Council decision to release draft monitoring and evaluation guidance document for comment:

Steve Waste, manager, program analysis and evaluation.

Staffer Steve Waste described a document titled "Draft Guidance for Developing Monitoring and Evaluation (M&E) as a Program Element of the F&W Program," which is ready to be sent out for public comment. It is, he said, "an integrative piece" between the Council's F&W program and other M&E activities in the region, like those of NOAA Fisheries. It's about developing "a common currency" to be able to link monitoring activities to management decisions, according to Waste.

The Council will set provincial-scale objectives through its amendment process, but I would hope those objectives have "quantified targets" so we can see if we are getting closer to the targets in each province, he said. I hope we can have a regional dialogue to negotiate what reasonable provincial objectives are and then "we can live or die by the sword of monitoring of whether we are getting there or not," Waste stated.

This document is at the 30,000-foot level -- I was hoping we'd be further along in the details so we could have something to inform our F&W project decisions by October, said Karier. I'm willing to send this out for comment if it goes to the Independent Scientific Advisory Board or the Independent Scientific Review Panel, he added.

Judi Danielson said she is concerned about whether there are performance standards and linkages. The multimillions of dollars of spending on M&E should be linked to where we want to go, she stated. “M&E’s time has come, and this is a leadership opportunity,” responded Waste. If we can settle on guidance for the Council’s F&W program in a way that makes sense for others in the region, then we’ll get to a truly regional program, he said.

Brian Lipscomb of the Columbia Basin Fish and Wildlife Authority (CBFWA) urged the Council not to send the document out because it would create confusion between it and the “rolling issue” memorandum the Council has prepared for the FY 2007-09 project selection. Dukes moved that the Council release for public comment the Draft Guidance for Developing M&E in the F&W program, and Cassidy seconded. The motion passed unanimously.

4. Update on NOAA hatchery review and its implications for the work of the Council:

John Shurts, general counsel; and Doug Marker.

We expected to receive by the end of March a work plan for the NOAA Fisheries Hatchery Review that Jim Waldo described to the Council last month, but it isn’t available yet, Shurts reported. We don’t know when it is coming, he added.

I have been hearing that the hatchery review’s first year may be dominated by work on the Mitchell Act hatcheries, Shurts said. My hope was that NOAA’s hatchery review would complete some of the All-H Analyzer (AHA) work needed for the Council’s program, Karier said. If that doesn’t happen, is that a concern for us? he asked. It could be, if they spend the first year on the Mitchell Act and don’t do the AHA work until later, replied Shurts.

I thought we approved a contract in January for a contractor to finish the AHA work we needed, said Eden. The Mobrand firm that developed the AHA tool has now contracted with NOAA Fisheries for the hatchery review, Shurts said. So we authorized funding, but now we don’t have a contractor? Karier asked. Yes, it appears the AHA tool will be used, but for the Mitchell Act work first, replied Shurts. He said he would look further into the matter and report back to the Council.

Conservation Strategy (added agenda item)

The Fifth Power Plan calls for the Council to develop a strategic plan for conservation acquisition, including holding a forum at which a formal agreement would be reached by regional entities on conservation funding and implementation, staffer Terry Morlan said. Since work on conservation implementation strategies is already proceeding successfully on an informal basis, staff is proposing to develop the plan using a less formal process, he stated.

The people in the region involved in developing the strategic plan have agreed to participate in a more collaborative process, said Kempton. Staff recommends that we approve this proposal, provide public notice, and revisit the issue, if the comments received so warrant, he stated. The Council agreed to the revised approach.

Presentation by William K. Drummond, General Manager, Western Montana Electric G&T Coop Inc.

Bill Drummond, general manager of Western Montana G&T Cooperative, presented his thoughts on electricity in Montana, the Regional Dialogue, and the Northwest Power Act. He said his remarks are his own and that he is not speaking for his board. Drummond pointed out that Western Montana G&T's members serve over 100,000 customers, and that by September, all his members will have all their load on BPA.

Northwestern Energy is for up for sale and has received an offer from Montana Public Power, Inc., and there are rumors of interest from others, such as MidAmerican Energy, he reported. No matter who buys it, they will face a big power supply risk, and Northwestern faces uncertain regulation by the Public Service Commission, Drummond said.

Northwestern is prohibited from building generation to serve its customers, he noted. Drummond said alternatives to the current situation include having Northwestern become a public power utility; having it stay an IOU, but be allowed to build its own generation; or having it become a hybrid, with the IOU owning distribution and a public entity providing wholesale power supply.

There are 26 rural electric cooperatives in Montana, and most of them get most of their power from the Western Area Power Administration, he explained. Five co-ops in southeastern Montana are trying to build a coal plant outside Great Falls, Drummond said, adding "we'll see how that goes."

There is a lot of new merchant coal generation planned, but it's being held up by the lack of transmission, he noted. The bottom line is that there is a lot of potential generation, but no way to get it out of state, Drummond said. There is huge wind potential, but no transmission, and there is also the issue of firming, he added. "The co-ops are in good shape with respect to power supply, but it's a mess on the IOU side with Northwestern," Drummond summed up.

The first issue for public power in the Regional Dialogue is how to allocate the Federal Base System (FBS), he told the Council. There have been several proposals, and the most recent was approved by the Public Power Council this week, Drummond reported. Under it, there would be a preliminary look at what each utility would get in FY 2007 and a forecast of loads for 2012, as well as estimated resources available in 2012, he explained. The plan requires figuring out net requirements, and there's a lot of controversy associated with that, Drummond said. In 2011, final determinations would be made of how much of the FBS each utility would be entitled to, known as Tier 1 power, he noted.

If the FBS is greater than the sum of utility loads, "we're in good shape," and if it's less, BPA would be able to augment the system for up to 300 MW, Drummond stated. I'm convinced that this mechanism is more stable and defensible, and I hope BPA will look positively on it, he said.

As for the issue of IOU benefits, public power tried to figure out what the level of benefits should be and decided just over \$200 million a year was good, Drummond continued. But the IOUs couldn't negotiate the number because utility commissions told them that any decrease in BPA benefits would lead to an immediate rate increase, he said. So the IOUs had to walk away

from the table, and the issue is back in BPA's lap with no regional consensus, according to Drummond. I think we could just go back to the Average System Cost methodology, he added.

Drummond also reported a lack of regional consensus on the issue of DSI service. Some publics say DSI service should be zero and that the Act only called for one 20-year contract for them, he noted. Public power doesn't like a physical power sale to the DSIs because it leaves the publics at risk, Drummond explained. Public power finds financial benefits more palatable, but there's the question of how much that would be, he said.

BPA is going to do a DSI study, and it will be interesting to see what it shows about communities where DSIs have shut down, Drummond stated. It appears that some communities have been able to recover quite well over time, he said.

Public power also did not deal with the issue of new publics, Drummond reported. Most in public power support some limited augmentation of the system for new publics, he said.

We don't know what the Tier 1 or Tier 2 products will look like or what the interaction between the two products would be, Drummond continued. There's also the question of load shaping, and rates are an issue to be hammered out, he noted. There is concern that Tier 2 costs could bleed into Tier 1, Drummond said. Another big question is whether BPA really wants resource acquisition authority up to 300 MW, as the publics' proposal envisions, he stated.

My thinking for the utilities I represent, Drummond said, is this: buy all the Tier 1 power you can get and look at what alternatives there are to Tier 2. Available transmission capacity will play a huge role, he stated. The transmission challenge in Montana is particularly large, but pooling can be used to manage around transmission constraints, according to Drummond. BPA is wary of the pooling idea, he added.

Tier 1 won't be 100 percent of the supply for my members, but it will likely be over 90 percent, and for the rest, we'll consider joining with other organizations, Drummond said, noting that Basin Electric has a lot of resources. In the 2012-2015 timeframe, you will likely see a lot of public power relying on BPA, he stated. We'll need to deal with all these issues when BPA releases the draft ROD for the Regional Dialogue in a couple of weeks, said Council Chair Tom Karier.

Drummond offered some thoughts on the 25th anniversary of the Northwest Power Act. He observed: "I thought F&W was a minor part of the Act added in at the last minute to forestall Endangered Species Act (ESA) listings, but that didn't quite work out." Some parts of the Act have worked really well, notably the success the Council has had with power planning, according to Drummond. You are still the source for answers to regional questions like reliability, he told the Council.

You've played a tremendous role in trying to bring science to bear on F&W issues and balance the amount of spending, given the requests you receive, Drummond said. And the Council is an important institution to educate the region about power and F&W issues, he added.

As the region tries to unwind provisions of the Power Act, success will depend on consensus, observed Kempton. The question is the extent to which consensus can be achieved to give a consistency that will support decisions that come out of the Regional Dialogue, he said.

5. Overview of Council Fiscal Year 2008 Budget and Fiscal Year 2007 revisions:

Steve Crow, executive director; and Sharon Ossmann, administrative officer.

Staffers Steve Crow and Sharon Ossmann presented an overview of the Council's proposed FY 2008 and revised FY 2007 budgets. Crow explained how the Council has entered into agreements with BPA to set budget caps over the years. As a result of those agreements, we've set priorities and deferred some activities, he noted. My message is that we've shown great budget restraint over the years, Crow stated. Over 20 years, there's only been a 30 percent increase in the budget, while the inflation rate has been over 70 percent, he said.

We have fewer FTEs and a smaller contracting budget than we had 20 years ago, according to Crow. We've underspent our budget cap every year, he added. We have made another agreement with BPA to set budget limits until FY 2009, Crow said. We will bring a draft budget to you in May, Ossmann told the Council.

6. Report on Federal Agency budgets:

Mark Walker, director, public affairs division.

In a presentation on FY 2007 appropriations requests of federal agencies that carry out programs in the Columbia Basin, staffer Mark Walker predicted that "this year will be a mess" in Washington, DC due to the Congressional elections. He said there is a slight increase in appropriations for basinwide federal salmon funding at \$578.1 million, up from \$559.1 million last year.

Walker said NOAA Fisheries' request for Columbia River Biological Opinion implementation funding is about the same as last year. "The NOAA Fisheries budget is the least transparent of all agency budgets," he noted.

The most significant change for FY 2007 is that the Corps of Engineers is proposing to move Columbia River Fish Mitigation, Chief Joseph Gas Abatement, and Willamette River Temperature Control Project funding, which used to be under the Corps' Construction program to Operations and Maintenance (O&M), Walker pointed out. The Corps thinks these are costs of operating the projects and that this funding should not compete with typical Corps construction projects, he said. It will be more difficult to track fish passage dollars because there is no longer an account – "it's a bit troubling," Walker stated.

He recommended that the Council: support the Columbia River Basin funds requested by the Administration; request \$598,000 for the Corps' Walla Walla watershed study and \$2 million for the USFWS for fish screens in the Pacific Northwest; and request there be a specific line item for

the Corps' Columbia River Fish Mitigation Project under either Construction or O&M. The Council asked Walker to draft a letter to Congress making those recommendations.

7. Public Comment on A Resource Adequacy Standard for the Pacific Northwest issue paper (Council document 2006-01).

Drummond said he was in support of the issue paper, "A Resource Adequacy Standard for the Pacific Northwest." There were no other comments.

8. Council decision on project selection issue paper recommendations:

Patty O'Toole, program implementation manager.

Staffer Patty O'Toole said the purpose of the "rolling issue memo" for the FY 2007-09 F&W project selection process is to provide public notice of issues that arise and how they are resolved through Council action. With respect to the funding commitment for the 2007-09 rate period, we are working with an annual average planning budget of \$153 million for expense and \$36 million in capital funds, which BPA and the Council agreed to use last fall, she explained. Another issue is how we plan to integrate ESA issues into project selection, O'Toole stated. We are asking BPA to make its ESA-based requirements known to us as early as possible, she noted.

BPA's Bill Maslen said BPA has a preliminary draft of the requirements which it can give the Council in a week or so. Will it be a list of projects? Eden asked. We are focusing on the 2007-09 projects submitted and looking to see if there are other needs those projects don't address, he said. By and large, with the 2007-09 proposals, we have what we need in hand, Maslen stated.

Staff recommends the Council adhere to its position that BPA's ESA-based, off-site mitigation projects be developed, as much as possible, within the general project selection process, said O'Toole. And if there are any "gaps," the projects to meet them must be designed in accord with Section 4(h)(10)(D) of the Northwest Power Act, she added.

Dukes moved that the Council adopt the staff recommendations regarding BPA's funding commitment for the rate period and Council allocation targets, and the integration of the off-site mitigation requirements in the FCRPS Biological Opinions, and Cassidy seconded. The motion implies we are accepting BPA's planning target of \$153 million, said Eden. We haven't accepted BPA's number since BPA had its funding crisis, she stated. If we accept this, "we would be paraded across the region as saying we think that's enough money," Eden said.

Eden moved to amend the motion to say the Council adopts staff recommendations regarding "acknowledgment of BPA's funding commitment for the 2007-09 rate period and that that commitment was used to set the Council allocation targets." Cassidy seconded, and the motion passed.

Karier brought up CBFWA's concern about people in the region being confused by the Council releasing the draft guidance document on M&E and also addressing M&E in Section 4 of the rolling issue memo. He moved that Section 4 be removed from the issue memo and attached to

the guidance document on M&E the Council voted the day before to release for public comment. Cassidy seconded. I think that would confuse the issue even more, said Eden. We aren't all operating on the assumption that the M&E plan will inform the project selection process, she stated.

The M&E guidance document is broader and longer term, while Section 4 of the issue memo attempts to guide what we'll do in the 2007-09 process, staffer Doug Marker said. The idea of my motion is to let the public see all of what the Council is doing with M&E, Karier stated.

The ISRP is reviewing 542 F&W project proposals, and it isn't using the M&E draft document we sent out yesterday, Eden said. In Oregon, project sponsors complain about what they are being told by the Council about M&E, she stated, adding "it's confusing, and I'll vote no." The motion passed, with Eden and Dukes voting no.

Remarks by Governor Brian Schweitzer of Montana.

We have two dams in our state that create 50 percent of the storage in the Columbia system, and we have a lot of ESA-listed species, such as the bull trout and the Kootenai River white sturgeon, that we have to manage, Montana Governor Brian Schweitzer told the Council. ESA discussions in the Northwest are focused mostly on species downstream, but "we'd like a modicum of respect for upstream ESA species," he said.

We have to manage our dams to protect upstream species, but too often we are reactive to the management of the system to protect downstream species, Schweitzer noted. Help us to have a balance that recognizes the need to protect upstream species, he urged the Council.

When we built Montana's dams, we gave up some of the most remarkable riverside property in North America, according to Schweitzer. The deal was that in return we would have a long-term supply of electricity, he noted. Now the Administration has put out a proposal that threatens BPA's rates, Schweitzer said. The four Northwest governors have sent a letter saying we don't agree with the proposal, and "the good news is that one of ours is now Secretary of the Interior," he stated. "Thank God we have one of our representatives in the belly of the beast," Schweitzer said.

Montana is a large producer of grain, wheat, and barley, yet we are captive shippers, he pointed out. To offset the negative consequences of having a single railroad, we have to truck our grain to Lewiston and put it on the river system you manage, Schweitzer told the Council. Until we can get Washington, DC to help us with this problem or get some relief in court, another of our goals is maintaining the opportunity to ship grain on the river system, he said.

Last year the four governors met in Spokane, and they will meet again this year with all 14 tribes present, Schweitzer stated. That will be historic, and I hope we can invite the Secretary of the Interior to be present too, he added.

One of our big challenges is to produce energy and balance the environmental needs of our region, Schweitzer said. We have the largest quantity of wind power of any state, but until this

year, Montana was in last place in wind energy, even behind Rhode Island, and “Rhode Island isn’t even the size of a decent ranch in Montana,” he stated.

In 2005, Montana enacted a Renewables Portfolio Standard calling for utilities to have 10 percent of their energy supply come from renewable energy by 2010 and 15 percent by 2015, Schweitzer noted. Last year, I cut the ribbon for the Judith Gap wind project, which allows Montana to produce 8.5 percent of its energy from wind, and we also cut the ribbon for a new 150-MW pulverized coal plant at Hardin, Montana, he stated. The power from the coal plant costs \$41 a megawatt, according to Schweitzer. Power from the wind plant costs \$32/MW, and we firm the wind with a natural gas plant in Butte, making the blended cost of power \$38/MW, the cheapest in the state, he said.

“Unless you live naked in a tree and only eat nuts, you are part of the energy problem,” Schweitzer stated. The solution to energy needs for the next five years is conservation, but beyond five years, new electricity resources will require new transmission lines, he said. We have transmission to get electricity to the West Coast, but we need a corridor to get to Las Vegas and the Southwest, Schweitzer stated, adding, “I’m working on that with other governors.” Use your influence to help us build the transmission corridors we need, he urged the Council.

We have a billion dollars of wind projects on the books in Montana now, Schweitzer pointed out. I’m also excited by the prospects for clean coal technology, he said. In coal plants that use Integrated Gasification Combined Cycle (IGCC) technology, we can produce electricity, remove the sulfur and mercury and produce pure carbon dioxide, Schweitzer stated. And there are companies that have told us they want to buy pure carbon dioxide from our IGCC plants, he said.

But people on the West Coast need to understand that there have to be signed contracts for that electricity, Schweitzer stated. We can’t build transmission without contracts for the electricity, and until we have the contracts, we’re at an impasse, he said. We could produce a lot of clean coal and wind energy in Montana, but we need West Coast utilities to step up to the plate, Schweitzer concluded.

9. Update and discussion on Fish Passage Center transition:

John Shurts and Doug Marker.

BPA has extended the Fish Passage Center’s contract with the Pacific States Marine Fisheries Commission through the end of November as a result of the Ninth Circuit’s recent stay order requiring a contract extension until the litigation is resolved, Shurts reported. The court has set a schedule that calls for the filing of briefs in June and arguments likely to be held in September, he said.

10. Council Business

– Adoption of minutes

Dukes moved to approve the minutes for the March 14-15, 2006 Council meeting held in Portland, Oregon. Cassidy seconded, and the motion passed unanimously.

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