

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
Skamania Lodge
Stevenson, WA

January 20-22, 2004

Minutes

Council Meeting - 8 a.m. - Stevenson Ballrooms C and D

All were present. The meeting was called to order by Council chair Judi Danielson at 8:05 am on January 20 and adjourned at 12:35 pm on January 22.

1. Strategic Planning Session and discussion of federal laws applicable to the Council in the areas of open meetings and ethics in government, and other personnel policies if time allows.

Steve Crow, executive director; Jim Tanner, administrative officer; John Shurts, general counsel; and Bill Hannaford, senior counsel.

Executive Director Steve Crow led a discussion of the draft Council work plan for the coming year. The plan, he said, shows priority objectives and tasks for the Council, as well as products expected and the timing needed for their delivery. The first item was revision of the power plan, which Crow said is the "key activity that drives much of what we're going to do this year." He noted that it would be desirable to have the plan finalized and sent out before work on the subbasin planning amendment process begins.

Danielson asked if he thought there would be slippage on the dates set forth for the draft and final versions of the power plan. Crow indicated getting the work done would be "difficult but doable." John Hines asked about the role of the Public Affairs Committee and staff in writing the plan. Crow said the staff helped write the plan in the past and that he anticipated would do so again. Larry Cassidy recommended that the Council announce the availability of its video on fish and wildlife before work commences on the video to accompany the new power plan. Cassidy recommended that the Public Affairs Committee get involved early in power plan

preparation, as well as the recommendations to Bonneville, and Crow agreed. Staffer Mark Walker said the Public Affairs staff is “in good shape to help out” with the tasks described.

Danielson recommended that the full Council set time aside to discuss the different parts of the power plan. Kempton pointed out that besides the plan, the Council will also be working on recommendations to Bonneville on the future of Bonneville, and that doing both tasks “isn’t going to be an easy ride.” Crow indicated that the recommendations to Bonneville are scheduled to be delivered in the April-May time frame. Staffer John Shurts pointed out that the power plan and recommendations to Bonneville are closely related.

Crow said the schedule indicates the Council would conduct the process for amending the mainstem amendments between September and December. He noted that the revised Biological Opinion (BiOp) could come out in June or July and that it would affect the Council’s process.

The Council needs to discuss the timing of writing an issue paper and talking to Congress about hatchery reform, Crow said. Getting the issue paper out is a high priority if the Artificial Production Review (APRE) is going to be meaningful, Cassidy stated. We need to spell out how we are going to meld the APRE information with subbasin planning, Tom Karier said. We need to have something decided about the APRE before we can make judgments on subbasin planning, noted Hines. The APRE report that we have now contains data that subbasin planners should be using -- the issue paper will sum up what we intend to tell Congress about funding Mitchell Act hatcheries, Shurts said.

The APRE report isn’t just data -- it contains recommendations about what the problems are and what needs to change, Karier stated. We’ve “been knocking around on this hatchery study for five years -- we’ve got the problems down, but not the solutions,” he continued. We need to tell subbasin planners what we want them to do in light of what the APRE recommends, Karier added. Most of the hatcheries are funded independently, outside of the Council, and are not part of the subbasin plans so we’ll have to work with other federal agencies, staffer Doug Marker noted. I’m confident we can do the issue paper without much trouble, he added.

Marker said he is pushing for the June time frame for the long-term funding agreement for fish and wildlife with Bonneville because it needs to be wrapped up before the Council “gets immersed” in subbasin plans. We aren’t going to do fish and wildlife budgeting as Bonneville has asked us to do, he told the Council. I think we should set an initial budget and let Bonneville track and forecast its cash flow, Marker said. Getting information from Bonneville has been an ongoing problem, stated Karier. I’d like to see the Council think of a more efficient way to oversee this -- maybe we should write performance standards for Bonneville’s fish and wildlife division to follow, he said. It would be helpful if we had an agreement on fish and wildlife funding for the short term, for the period between now and 2007, said Bartlett.

Hines suggested that the work plan include the issue of overall funding for the Council, and Crow said he would incorporate it. Danielson urged that the Council make sure it is being “as responsible as possible” with its own budgets.

Crow said the Fish Committee will be developing a strategy for fish and wildlife project selection and funding and will address how to resolve key issues like capitalization, shifting the Council to an oversight role, and consideration of cost-sharing for project selection. Marker stressed the importance of addressing whether the Council should focus on big-picture issues versus project-by-project allocations.

Karier noted that the research plan staffer Steve Waste is working on shows the region is spending \$50 million a year for research, but that not a lot of that deals with the big picture. We as a Council have never discussed what our research priorities are, and we need to focus more on that, he said.

Crow pointed out that the plan calls for the Council's public affairs function to place more emphasis on Washington, DC contacts, including interaction with Congress and federal agency policymakers. Karier asked about the issue of cost control at Bonneville, which the governors asked the Council to look into. Crow said that should be part of the recommendations the Council makes about the future of Bonneville, and said he would add that item to the plan. He told the Council he would update the work plan based on the morning's discussion and provide them with copies.

Staffer Bill Hannaford led a discussion of federal laws applicable to the Council in the areas of open meetings, ethics in government, and personnel policies. He explained policies, laid out in federal regulations under the Ethics in Government Act, which govern how the Council maintains its integrity as a government agency. The policies deal with items like financial disclosure, conflicts of interest, gifts, and post-Council employment, Hannaford noted.

In the discussion of conflicts, Cassidy asked about Council members having retirement accounts that contain energy company stocks. The Dept. of Energy used to put out a list of energy companies that employees in agencies like Bonneville could not have ownership in, but recently DOE changed that policy, Hannaford replied. Now it is permissible to hold interests in energy companies, but he advised consulting with the Council's legal department on any such matters or issues.

Danielson asked about the ramifications of a Council member owning energy company stock in light of the IOU litigation settlement being considered in the region. Hannaford noted that "appearance" of impartiality is an important precept, even if the rules don't prohibit an action. Do the rules address owning retirement funds that hold a wide variety of stocks? Karier asked. No, you aren't prohibited from owning widely diversified mutual funds because you don't have control over decisions being made, Hannaford replied.

How about a Council member being a contributor or member of an organization that advocates a particular position such as dam removal? Hines asked. That wouldn't be prohibited, but serving on the board of such an organization could be, Hannaford said, recommending consultation on such questions with the legal department.

Kempton inquired about state-required oaths of office versus federal requirements. Because the Council is an interstate compact, federal laws trump those of the states, but it's a question I'd like to think more about, replied Hannaford. He explained policies with respect to "prohibited financial interests," the issue of "impartiality," gifts, "misuse of position," prohibitions on "outside employment," and post-Council employment. When questions arise, we turn to the federal regulations to get answers, Hannaford said.

As for personnel policies, staffer Jim Tanner noted that state staff would attend a workshop on discrimination and harassment in the workplace and on grievance procedures on February 11. Danielson noted the Council would discuss these policies at its next meeting.

2. Briefing on loss of fish operations probability concept:

John Fazio, senior power systems analyst.

Staffer John Fazio presented a proposed methodology for LOFP (Loss of Fish-operations Probability), which uses the GENESYS model to quantitatively estimate the adequacy of the power system to provide fish and wildlife operations. He noted that LOFP, which measures how often fish and wildlife operations are curtailed, is similar to the LOLP, Loss of Load Probability, calculation. Fazio called the LOFP “a prototype metric” that still needs extensive regional debate and testing before it can be adopted.

Development of the LOFP involves two questions, according to Fazio: should power planning efforts influence the development of fish and wildlife operations and vice versa; and how can the power community quantitatively show that fish and wildlife operations are not being inordinately curtailed? He answered the questions by saying that there should be a flow of information between the power planning and fish and wildlife planning processes and that a metric can be developed that measures how often fish and wildlife operations are provided. Fazio noted that the information exchange from power to fish and wildlife to make this possible involves physical data, such as changes to flows and reservoir elevations due to fish and wildlife measures, and economic data, such as changes to electricity generation and power-system costs for each fish and wildlife measure.

Fish managers need economic data to assist in deciding how to spend biological research money, in developing a fish and wildlife operations curtailment policy in the event of a power emergency, and in identifying fish and wildlife measures that are (perhaps) cheaper and provide the same or better biological benefits, he explained. The information that needs to flow from fish and wildlife managers to power managers includes hydro operating constraints and fish and wildlife curtailment policies, Fazio said.

The flow of information is the most important part of this topic, he emphasized. This metric may be useful, but it is a planning tool and not to be used for within-year operating decisions, Fazio said.

Of the two fish and wildlife measures germane to the discussion, flow augmentation and bypass spill, flow augmentation is the toughest to calculate, he noted. Fazio discussed how to count flow augmentation curtailments and said the real measure of success for flow augmentation is “how often we start the season with a full tank of water,” and thus flow augmentation shortfall should be equated to refill failures. He said recent runs of the model showed that out of 300 spring and summer seasons, 15 had some curtailment of fish and wildlife operations above the threshold.

Fazio explained how hydro flexibility affects refill. Given a static set of non-hydro resources, the more hydro flex is used in winter, the lower the likelihood of winter power outages, but the higher the likelihood of curtailment of fish and wildlife operations in the spring and summer, he said. Without some kind of metric, it remains a subjective process to tell if curtailment of fish operations is being used instead of planning for an adequate power supply, stated Fazio.

He observed that the LOFP can be used to help set guidelines for how aggressively hydro flexibility should be used, and if using that level of flexibility yields too high of an LOLP, then additional resources need to be called for in the Power Plan to keep both the LOLP and LOFP at acceptable levels. The Council asked questions about the model and its results, and Fazio

pointed out that his results are preliminary and further review of the model is needed. “Whether this metric catches on or not, it’s important for fish and wildlife managers and power managers to communicate and to share data,” he said.

Bartlett suggested the Power Committee do further review of the LOFP. Cassidy asked what the process is for a model like this to become a permanent tool, and Fazio recounted how the GENESYS model was built to analyze LOLP. Shurts said the LOLP has been used extensively, and that the Council has made recommendations based on it. As for LOFP, Fazio pointed out that he is currently receiving comments about it from people in the region.

Presentations made to the Power Committee about LOFP have raised some significant issues, and more work needs to be done before we send this out for peer review, said Hines. Kempton agreed, pointing out the difficulties associated with the model not only in defining LOFP that is acceptable biologically, but in figuring out how the effects of LOFP on long-term power contracts and rates could be mitigated. Allocating responsibility among parties in the region would be extremely difficult, added staffer Dick Watson.

Gene Derfler asked whether there is enough information to use the model. We can predict power demand, but we don’t have the information on fish that would be needed, he said. NOAA Fisheries is going to try to assess the biological implications of this, Fazio noted. At the end of the day, the Council has to show it can ensure the region an “adequate, efficient, economical and reliable” power supply and that it can “protect, mitigate and enhance” fish and wildlife, and this is a quantitative way to do that, he stated. This metric may not work, but the Council still has to do that, Fazio added.

Karier asked exactly what NOAA Fisheries will do. They will use the SIMPAS model and other methods to determine what they think the impacts will be and what the implications are, Fazio replied.

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

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

Jim Kempton, chair of the Power Committee, said the committee received a briefing from staffer Wally Gibson on transmission issues, including the initial proposal from the Regional Representatives Group. He said the committee approved the draft introduction to the power plan and discussed chapter 2 of the plan and the portfolio analysis modeling. The committee also talked about the process for formulating recommendations about the future role of Bonneville and issues related to 20-year Bonneville contracts, including tiered rates, Kempton stated.

Ed Bartlett, chair of the fish and wildlife Committee, reported the committee talked about recommendations for the FY 2004 fish and wildlife program implementation budget and the risks associated with that budget. The three options for 2004 are to supplement the budget, cut it, or manage to certain principles, he said. The Nez Perce Tribe and the Columbia River Inter-Tribal Fish Commission made a presentation on conservation enforcement funding and asked the Council to recommend that the funding continue, Bartlett stated. The committee also discussed mainstem implementation issues, a draft issue paper on the Artificial Production Review, the Pacific Coastal Salmon Recovery Fund performance metrics, and resolving questions on

completing subbasin plans, including the most important question, which Bartlett said was the fix-it loop.

3. Status report on long-term Bonneville fish and wildlife funding agreement:

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

There has been some progress in our discussions with Bonneville about a long-term funding agreement for fish and wildlife (fish and wildlife), staffer Doug Marker reported, adding that Council staff is now ready to talk with other parties in the region about concepts for the MOA. Bonneville has shown a willingness to work with us on a funding agreement for the next rate case, but Bonneville “has put a higher value on specifically defining what its fish and wildlife obligations are,” staffer John Ogan said. Bonneville is looking at our ideas for organizing the information to start the first steps forward, and we also want to talk with project sponsors, he noted.

The sooner we get to this, the better, Danielson stated. Have you thought about how to approach different groups and which groups you want to talk to? Hines asked. The next step is to get feedback in an informal way, and we’re open to ideas as to how people want to be involved, replied Ogan. I suggest you use an expansive contact list and not limit your contacts to just project sponsors, Hines said.

Asked how she would assess the situation, Therese Lamb of Bonneville said “it’s going well.” I encourage all the parties to “proceed with haste,” stated Bartlett, noting that the governors had requested that work on a new MOA move faster than it has.

I’d like to hear you’re on the track to a long-term MOA, said Cassidy. This is a critical part of the future of fish and wildlife, and what really bothers me is that there’s no incentive for Bonneville to get this done, he stated. At the end of these discussions, I suspect “we’ll get down to a few dealbreakers,” Cassidy added. So I think this has to stay on track, and if it doesn’t, we’ll have to go a different route than the MOA, he said.

We’ll have a work plan to you by next month, and we hope to complete the agreement for the next rate period by summer, Marker said. I think this work should be done by June, said Danielson. This budget information has to feed into the joint customer proposal we expect to be put together by this summer, Hines stated. We look forward to a more detailed discussion of this with you next month, Ogan told the Council.

4. Status report on Fiscal Year 2004 program implementation budget:

Doug Marker; and Patty O’Toole, manager, program implementation.

Marker explained that the FY 2004 fish and wildlife budget is being affected by liabilities left over from the FY 2003 budget and that staff is working with Bonneville to determine what kind of flexibility exists since “we are starting the year \$15 million below what we need.” We can’t spend so much time working with Bonneville on managing its cash needs, he said. We think the Council should focus on tracking current provincial review recommendations and focus on

whether those are getting done, Marker stated. There are also policy issues that have not yet been resolved, such as the question of capital versus expense, he noted.

Staffer Patty O'Toole said the goals of the Council are to monitor the integrity of adopted project funding recommendations, ensure greater accountability and stability for projects implementing the program and provide a transition to implementation of subbasin plans. We started FY 2004 with \$126 million in fish and wildlife project recommendations and we added \$27.7 million in placeholders to that, she noted.

We recommended \$154 million for the starting 2004 budget, but then "things happened," O'Toole said. When FY 2003 ended, many projects, totaling about \$8.1 million, had exceeded the Council's 2003 spending recommendations, she stated. There was also unreported 2003 spending on work done in 2002 -- work that hadn't gotten billed -- and that totaled \$4.7 million, according to O'Toole.

What else could affect the 2004 budget? There's \$4.8 million in "corrections," she said, including errors made in budgets, and projects that don't have a Council-recommended budget, but have been funded in the past and have contracts that extend into this fiscal year, like conservation enforcement.

This illustrates the difficulty we are having managing on a cash-flow basis as Bonneville wants it to be done, said Marker. We've been trying to get the numbers right, and that has prevented us from focusing on the policy issues, he stated.

There is also an additional \$1.9 million, which is for projects that Bonneville decided to fund without a recommendation from the Council, and \$2.8 million for projects assumed to be capital, but are now in the expense category, O'Toole continued. So far we've had \$5.2 million in FY 2004 project funding requests, she noted. O'Toole also identified \$7.4 million in "potential exposure" for the program, from contracts that were written in the past, but where there is still the possibility that the project sponsors will do the work and send the bills in this fiscal year.

That's a "worst-case scenario" -- we don't know if that amount will come down in 2004, but we asked Bonneville for potential exposure, and they gave us this number, she said. O'Toole also noted \$30.4 million in land acquisition projects recommended in the provincial reviews, pointing out that "we haven't resolved how to deal with these."

This has come about as a result of how Bonneville manages the program, said Marker. We have to resolve the capitalization issue and the crediting issue, he stated. We'll meet with Bonneville next week about the corrections to the FY 2004 budget, but the worst case is that we'd have to make up the amounts we don't have in the 2005 and 2006 budgets, Marker said.

This is shocking to see how this is put together, said Karier. With all this, how can the Council measure whether Bonneville is actually implementing its recommendations? he wondered. Karier recommended "going to back to the basics" and that the Council staff should stop being involved in trying to forecast budgets for Bonneville. We should make recommendations to Bonneville to implement our program, and let Bonneville worry about bills from the past coming in late, he said. We should get away from "chasing Bonneville's latest numbers of the week," Karier stated.

It would be nice if this were simple, but it isn't, commented Bartlett. Part of this arises from the fish and wildlife Committee's concern about going from obligations to the accrual method, he said. We need to resolve that, and if we can, then a less complex process is appropriate, Bartlett added. Going from \$154 million to \$139 million in FY 2004 is not easy and maybe not even possible, he said.

If we spend more this year, will we have less in 2005 or 2006? Why is this year a good year to spend more than future years? Karier asked. These numbers represent the potential risk, and as a result, Bonneville may come back with another proposal, but the risk is we'll have less to work with in 2005 and 2006, replied Marker.

Are you saying we are already committed on the road to spend \$154 million, and we can't go back? Karier asked. Scott Hampton of Bonneville said the agency has the ability to reduce budgets throughout the rest of the year, but it will require renegotiating contracts. If going to \$154 million this year reduces the ability to implement subbasin planning in future years, that's a serious policy issue, said Hines. We need to be able to make educated guesses on placeholders unless there's going to be more funding available, he stated. I'd like to see a fairly firm funding schedule to fulfill offsite mitigation requirements or find another way to fund projects, Hines said.

I agree with Tom -- we should return to the fundamentals, stated Kempton. When I see these numbers, I put them in the category of "somebody else's problem," he said. The fish and wildlife Committee has been struggling with this, and it's worth noting that the \$154 million includes funds for subbasin planning, said Cassidy. I think this will work out -- the important thing is to get what the past obligations are determined and then get the Council out of this financial detail business, he stated. Bonneville is working hard on this and making progress, and eventually, the Council will be able to disengage, Cassidy added.

It's hard to understand how an agency as large as Bonneville can allow this to happen, said Derfler. It's unacceptable, and someone at Bonneville has to take the responsibility for it, he stated. Since Bonneville has reorganized, they have identified the problems and are making headway, and the Council needs to start to move on from this, said Danielson.

5. Presentation by U. S. Army Corps of Engineers on installation of removable spillway weir at Ice Harbor Dam:

Bruce Suzumoto, manager, special projects; Witt Anderson, U.S. Army Corps of Engineers; and a representative from the Walla Walla District, U.S. Army Corps of Engineers.

Kevin Crum of the Corps said a removable spillway weir (RSW) was installed at Lower Granite in 2001 and that the Corps now has biological data from two years of testing "that seems pretty solid." We are looking now at installation of an RSW at Ice Harbor, he said. Crum explained how the RSW works at Lower Granite and the results of biological tests in 2003 in which tagged fish were released upstream of the project and tracked down to Little Goose.

He noted that use of the RSW results in "quite a bit of reduction in spill," compared to the amount of spill used in BiOp operations. We concluded from the study that the RSW exceeds existing BiOp spill performance at Lower Granite, Crum stated. There was a 98 percent survival probability with the RSW, compared to 93 percent under BiOp spill, he said. Passage

distribution under the RSW and BiOp spill were comparable, but the RSW distribution was a little higher and uses less flow, according to Crum.

As for fish/flow ratio, the study found up to a 10-to-1 improvement with the RSW over BiOp spill, he said. The RSW is five times more efficient – more fish are using it with much less flow, Crum noted. In addition, the RSW reduced forebay retention and upstream travel times compared to BiOp spill, he said.

At Ice Harbor Dam, recent studies have shown lower spillway survival in the summer than has been predicted, Crum stated. We believe it is a mechanistic problem, not predation, that is causing the injuries, but we'll do tests this spring and summer to try to figure out what is going on, he said. We don't believe that installing an RSW will cause injuries, Crum added.

Karier said the injuries at Ice Harbor in the studies he's seen seem to be related to low flows during the summer, and since an RSW constrains the amount of flow, the flip lips at the dam may be causing the problem. Why wouldn't you figure out the reason for low survival first before you commit millions of dollars to this? he asked. We've "worked this hard" with NOAA Fisheries, and we think the tests this spring will isolate the cause, replied Crum. That solution has to be made outside of RSW development, he said. If we don't find a solution, we'll have to revisit our plans and slow down, Crum added.

Would it be helpful to submit this question to the ISAB? Karier asked. If we can work it into our schedule, it would be helpful, replied Anderson.

I'd like to see the Corps press ahead with this and get the RSW in place, stated Danielson. "This is one of the best pieces of equipment on the river that's come along," she said.

Crum cited a Bonneville analysis of December 2003 that estimates BiOp spill passage operations at Ice Harbor have an average annual cost of \$34 million. According to Bonneville, spill operations using the RSW would have average annual costs of \$12 million to \$22 million, depending on how the RSW is operated, he said.

Crum explained that salmon managers in Oregon and Washington have expressed concerns about the fish injuries at Ice Harbor and recommend that the Corps delay the Ice Harbor RSW and use Little Goose or Lower Monumental as the next RSW site. NOAA Fisheries, Bonneville, and the Idaho Dept. of Fish and Game support continuing the work on the Ice Harbor RSW, he said. The Corps, Crum noted, recommends completing the Ice Harbor RSW design and working with the region to determine priorities for other RSWs. Regardless of the order of their installation, the RSWs offer flexibility for adaptive management throughout the Lower Snake River and McNary system, he said.

Crum laid out a schedule for the Ice Harbor RSW that shows a solicitation going out at the end of January, an award in May 2004, and installation in March 2005. This schedule is tight, but we believe it's achievable, Crum said.

Funding is a challenge for us, Anderson told the Council. We have reprogrammed some funds and now have \$69 million in hand, but we need \$71 million to complete the RSW at Ice Harbor, he said. We plan to discuss the funding with the System Configuration Team next Friday, Anderson added.

Larry Cassidy asked about construction costs. Crum said actual construction at Lower Granite cost \$12.3 million, and that Ice Harbor would be about the same, but there are other costs, such as for testing. There's a significant savings associated with the installation of the RSWs that makes the Council want to have this done as soon as possible, said Cassidy. Would these savings mean we could do less transportation of fish? he asked. If you could provide better passage, maybe you wouldn't want to transport as many fish – the BiOp calls for more study of that, replied Anderson. Ice Harbor offers the best opportunity for cost savings and is the logical next candidate because it is a non-transport project, he added.

Anderson said one of the state agencies or tribes may want to raise the issue of where to put the next RSW with the Implementation Team. We don't know how that will come out – we're trying to leave our options open and keep moving forward, he added.

Terry Courtney, Jr. of the Warm Springs Tribes said he likes the figures the Corps presented and the project "looks really good," but that the tribes still have concerns that "these things may not work." I hope we don't have to study it for too long before we know, he stated. The tribes have been fighting for fish recovery and are now in negotiations about another fish plan, Courtney said. If things fall apart, the tribes will be asking non-tribal fishers to take the hit, he added.

Terry Courtney, Jr. of the Warm Springs Tribes noted, with respect to the offset proposals, that tribes have cut back voluntarily on harvest. The tribes don't see that limiting harvest will get recovery, he stated. There are other methods that can be used, Courtney said.

6. Panel of federal executives with update on mainstem amendment implementation, including 2004 summer spill evaluation and Libby and Hungry Horse summer operations:

Doug Marker; Bruce Suzumoto; Witt Anderson, U.S. Army Corps of Engineers; Greg Delwiche, Bonneville Power Administration; and a representative from NOAA Fisheries.

Bonneville's Greg Delwiche kicked off a panel of federal agency representatives assembled to update the Council on 2004 summer spill alternatives by reporting on a new analysis of the biological and revenue impacts of various spill operations. At this point, no decisions have been made about where to go with summer spill in 2004, he noted.

Last year, the federal agency heads said changes needed to be made to find a less costly approach to summer spill while still maintaining the biological benefits, and "that's the driver of why we are here before you today," Delwiche told the Council. He said the biological analysis used the SIMPAS model to analyze fish survival rates under different spill scenarios.

Delwiche presented a table of results which showed that based on a 2 percent smolt-to-adult ratio (SAR), no spill in July or August would mean 19,000 fewer adult fish returns than under full Biological Opinion (BiOp) spill, with an average cost savings of \$77 million. Option C, he noted, which calls for no spill in August, no spill at Ice Harbor in July or August, and BiOp spill in July, except that 50 kcfs versus BiOp spill would be tested at Bonneville Dam, would result in a loss of 8,000 fish, with a cost savings of \$51 million.

A chart of revenue impacts showed the range of cost savings from no spill in July and August, compared to BiOp spill, to be \$55 million to \$92 million, while the range for Option C was \$30

million to \$61 million. Option B, which is the same as Option C, except it would test zero spill at Bonneville Dam, showed a loss of 9,000 fish, with an average cost savings of \$54 million.

Your chart “begs the question of the cost of those fish” – they are very expensive, said Danielson. Eden asked about the assumptions underlying the \$92 million figure, and Delwiche replied that they were high market and low water. Gene Derfler asked what the difference would be if you separated July and August and did the analysis. The costs would be pretty closely equal, replied Delwiche, adding that August costs might be a little higher than July.

John Hines asked what the analysis showed about the effects on ESA-listed fish. Delwiche said the study showed 24 fewer listed Snake River fall chinook with no spill in July or August, versus BiOp spill, and that under Options B and C, it would be 12 fewer fish. These numbers are close to the results Bruce Suzumoto developed last summer, Delwiche said. The Columbia River Inter-Tribal Fish Commission did an analysis recently that got some different numbers, but “all the studies seem to be in the same ballpark,” he stated.

A Menu of Offsets

John Palensky of NOAA Fisheries presented a list of potential biological offsets for summer spill reduction, with costs, benefits, and timelines, noting that the information was being sent out that day to a wide mailing list for comments. This list, not in order of priority, consists of the activities that appear to have the most promise, he said:

- Northern pikeminnow management. “This gets fairly substantial results,” Palensky noted.
- Smallmouth bass management.
- Pile dike removal (dikes are used by avian and piscine predators). “There are about 18,000 pilings in the river that are no longer functional,” he said.
- Commercial harvest reductions. “The feasibility of doing this is somewhat questionable,” according to Palensky.
- Hanford Reach rearing protection.
- Avian predation research.

Habitat improvements. We still don’t have the data to tell us what kind of benefit we get from this, he said. It takes a lot of time to repair habitat so the benefit is not immediate, Palensky added.

He noted other potential offsets, including marine mammal management, hatchery supplementation, raised spillway weirs, dam removal, reservoir drawdowns, reintroduction of fall chinook above Hells Canyon, and managing turbine operations to maximize passage survival.

Did you discuss the end gain of the offsets, for example, was it “no net impact” on fish? Hines asked. We used “greater or equal benefit,” replied Palensky. How would this be implemented? Would Bonneville set up a separate fund – would projects be reviewed by the Council or the Independent Scientific Advisory Board (ISAB)? Tom Karier asked. I would assume Bonneville would provide the funding, Palensky replied. We did use a principle that said these activities would be funded above and beyond the existing fish and wildlife program, he added.

Ed Bartlett asked Palensky if his agency disagreed with the fish survival figures Delwiche had presented. No, we collaborated with Bonneville on the study, and we think it's in the plus-or-minus 10 percent range, Palensky replied.

Witt Anderson of the Corps of Engineers said the results of the analysis and the offsets information would be posted on the Technical Management Team (TMT) website and sent to Regional Forum participants for review. We'll meet with the TMT about it on February 4 and with the Implementation Team on February 5, he stated. We would like to get all the input on the analysis back by February 13, Anderson said.

We need to have discussions with the states and tribes and are working on the best ways to do that, he added. We want to wrap this up by early March so we will know what the offsets are and can work on how to fund and execute them in the event we decide to change spill operations, Anderson said.

Did your analysis use an average water year? Derfler asked. We looked at low flows and high flows, but the differences were relatively small, replied Delwiche, adding that more information on flows would be released the next day. Hines said funding for the offsets would come from revenues generated from the spill changes, not from the Council's fish and wildlife program, and asked, "is there a timing issue with that?" No, Delwiche replied.

Bartlett asked about the status of the federal agencies' work on modified summer operations at Libby and Hungry Horse. Most of our recent work has been on meeting the spill decision deadline, replied Palensky, but he noted that a proposal from the Montana Dept. of Fish, Wildlife and Parks on the biological effects of modified reservoir operations is being reviewed by the Columbia Basin Fish and Wildlife Authority (CBFWA). We anticipate working on the Libby/Hungry Horse issue more after the work on spill is done, and we'll probably do that through the Regional Forum, he said. "It's definitely on our screen," added Delwiche.

I see the need for "a higher level process in the federal family" to deal with the Libby/Hungry Horse issue, said Hines. I don't want it being considered too late like it was last year, he stated.

Things seem to be progressing, Karier commented. I encourage you to look at the language in the Council's program about designing the spill operations as an experiment, he said. You should give some thought as to how you can validate the numbers in your analysis with the tests this summer to see if your assumptions are correct, Karier added. You should also think about how to evaluate the benefits from the offset activities, he said.

I commend you on the March deadline to wrap up the work on the offsets, said Danielson. We'll expect to get your answer on spill the next time we meet with you, she added.

PNGC Sees New Era in Salmon Recovery

Scott Corwin of PNGC Power said, "as an eternal optimist," he believes the federal agencies' presentation is "good news" and "an indication that we are on the verge of a new era in salmon recovery." In this new era, we will finally move to relying on real measures of performance based on adult fish returns, rather than focusing on a checklist of methods that may or may not deliver those returns, he stated.

The Council deserves a lot of credit for demanding better science, creating a plan for the mainstem that pushes these issues forward, and for its work with the Independent Economic

Analysis Board (IEAB), Corwin said. He thanked the Council for its leadership in “searching for better answers to some of these difficult questions.”

Corwin said the federal agencies’ presentation “is compelling evidence of the dire need for a change to the summer spill program.” But we need a sense of urgency to get a proposal by March in order to be ready for this summer’s operation, he stated. It is good to see the agencies working collaboratively to create reliable estimates of impacts to fish from spill changes and from offset measures, Corwin said. The presentation today seems to corroborate prior runs of the SIMPAS model done by Council staff and NOAA Fisheries staff, dating back to 2001, he noted.

What we see in this presentation is that reductions in summer spill have a negligible impact to ESA-listed fish (24 adults lost from reducing all July and August spill) that is within the margin of error, Corwin continued. And eliminating all spill could impact an average of 19,000 non-listed adults out of an estimated adult count of over 384,000, and those fish are subject to harvest, he said.

At the average cost shown of \$77 million, “you can do the math,” Corwin told the Council. Without even getting into the relative economic values of the options, you see clearly there is a better way of getting adult returns by using some of the offset measures, such as pikeminnow control, he said. This is how it should work under the adaptive approach envisioned by all of us, Corwin stated. We should be able to identify the most efficient means to bring about the goal of adult returns and then quickly pursue those means, he added.

Ratepayers, and increasingly, the taxpayers of the region are focusing on these issues, Corwin said. The dollars involved “are not insignificant sums,” and equally important to the dollars is that we make progress in long-term salmon recovery efforts, he stated. But to continue to broaden support for these efforts, the federal agencies, with help from the states and tribes, need to take real action reflecting this new era of salmon recovery, according to Corwin. “We must actually implement smarter approaches that do not rely on checklists of how much water is spilled or how much money is spent – citizens just want to see results,” he said. “This is a good start,” Corwin concluded.

7. Update and briefing on water brokerage:

Andrew Purkey, National Fish and Wildlife Foundation.

Andrew Purkey of the National fish and wildlife Foundation (NFWF) updated the Council on the activities of the Columbia Basin Water Transactions Program, established in 2002 with Bonneville funding to fulfill a recommendation in the Council’s 2000 fish and wildlife program. The NFWF work carries out the program’s call to increase tributary flows to benefit fish and wildlife, as well as BiOp RPA 151’s call for Bonneville to fund an experiment to test innovative approaches to water marketing. Purkey explained the water transactions program’s philosophy and objectives and how a Technical Advisory Committee was established to review transactions. In FY 2003, the program did 32 deals, most of which were short-term leases, he said.

Purkey described several of the 2003 transactions, such as the Teanaway River leases, 10 short-term deals that put about 5 cfs of flows instream in Washington state. He noted that the NFWF program has produced a brochure and website and is now working on ways to monitor the

biological benefits of the water deals. In FY 2004, the program's budget is \$4 million, Purkey noted, and he is hoping to put together more long-term and permanent transactions and more cost-sharing.

This is a great success, and it seems to be doing what the Council hoped it would do, commented Karier. When you evaluate the biological benefits, will you do it on all or a handful of transactions? he asked. Last year, a lot of time was spent on setting up the program and the deals, but this year, we plan to challenge the local entities to provide us with the anticipated biological benefits of prospective deals, Purkey replied.

How are you doing on the transition from short-term deals to permanent? Karier inquired. We are telling the local entities that's what we expect, and recently we have received some proposals for permanent transactions, and that's encouraging, Purkey said. The marketplace is pretty undeveloped, and irrigated agriculture is reluctant to part with water rights on a permanent basis, but I'm hopeful, he added. We have made some headway in monitoring, noted Chris Furey of Bonneville.

Eden asked about the transaction with the Deschutes Resources Conservancy, and whether it would be renewed for another year. Yes, we want to fund it -- we'll track it and report back to you, Purkey said.

8. Briefing on draft Columbia Basin research plan:

Steve Waste, manager, program analysis and evaluation.

Staffer Steve Waste made a presentation on the draft research plan for the Columbia River Basin, which was presented to the Council on December 31, 2003, in response to the directive from the four governors to produce such a plan by year's end. He walked the Council through the main elements of the plan, discussed the work that remains to be done on it, and flagged particular areas on which he is seeking feedback from the Council.

The research in the fish and wildlife program to date has been done in a "bottom-up way," rather than starting with the questions we want answered, noted Karier. You've linked the management questions to the research topics in this, which provides some prioritization tools, but we still need a process, he said. We need to do prioritizing to decide how much money we should spend on research, on management strategies, and on critical uncertainties, Karier stated.

Waste said Chapter 6 of the plan, Developing and Implementing a Regional Research Agenda, is "where the real opportunity lies." We are missing a forum for folks in other agencies to come together and achieve cooperative management, he stated. It might be possible to bring folks together on an informal basis and start moving toward a new era of collaborative treatment of research questions and possibly sharing of funding, Waste said.

I hope to revise the plan after I get comments from the Council and send it to the independent science groups for review, he stated. I also want to further develop the chapter on a collaborative regional research agenda, Waste said.

The strategic issues in the draft plan fit well with what we need to do to get our new project selection process designed, noted Marker. At the policy level, we need to prioritize management strategies, and the research community needs to respond to that, said Karier.

9. Panel on draft regional monitoring and evaluation plan:

Steve Waste, manager, program analysis and evaluation; Keith Wolf, Keith Wolf Associates; Bruce Crawford, Washington Salmon Recovery Board; Steve Leider, Washington Governor's Salmon Recovery office.

Waste introduced a panel representing the Pacific Northwest Aquatic Monitoring Partnership (PNAMP) to talk about the draft plan it has submitted to the Council, "Recommendations for Coordinating State, Federal, and Tribal Watershed and Salmon Monitoring Programs in the Pacific Northwest." PNAMP's purpose is to coordinate important scientific information at the appropriate scales needed to inform public policy and resource management decisions, Waste said. While PNAMP is an ad hoc group now, it will need administrative support in the future, he noted. "We have no home now," but everybody likes the work coming out of this plan, Waste said, who then described the key elements of the plan.

Dr. Chris Jordan of NOAA Fisheries discussed the watershed condition monitoring planning module, aimed at assessing the effect of land management actions on watersheds. PNAMP's goal is to clarify how different site-selection-sampling designs for status and trend monitoring now in use might be coordinated, he said.

Bruce Crawford of the Washington Salmon Recovery Funding Board said the board supports this process and that working together has cost-savings benefits. He distributed a letter from the Oregon Watershed Enhancement Board in support of PNAMP. Crawford described how PNAMP can enhance and coordinate work in Intensively Monitored Watersheds.

Keith Wolf, representing the Colville Tribes, talked about the need for coordinating fish population monitoring programs and noted that many important processes in the region depend on fish population monitoring. He said there has been the beginning of transboundary coordination of protocols and standards with Canadian agencies.

Stuart Toshach of the NOAA Fisheries Science Center discussed data management coordination and the crucial role data management plays in supporting a regional monitoring program. PNAMP can offer the Council and NOAA Fisheries' CBCIS/Data Network Project a group of experts to identify protocols and standards, and information on what data needs to be shared and when, he said.

Rod Sando of CBFWA said CBFWA is coordinating state and tribal participation in developing BiOp-required monitoring protocols. PNAMP will improve the productivity and efficiency of the CBFWA effort, he stated.

Dr. John Stein of the NOAA Fisheries Science Center expressed support for PNAMP and talked about the development of reporting standards for the Pacific Salmon Commission. PNAMP is producing products that are needed, he said.

Jim Geiselman of Bonneville said the federal caucus recognizes PNAMP's importance in expanding research and monitoring and that there is a need for this work.

Steve Leider of the Washington Governor's Salmon Recovery Office said "it's stunning" to hear the level of involvement and support for this. We've wrestled with how formal this effort should be and how much coordination is enough, he noted. We are missing a coordinator to keep the

momentum going, Leider said. We'd like to hear from you about whether you think this effort is reasonable and what should be done next, he told the Council.

We plan to work on refining the plan, and we will brief the Regional Executives, said Waste. We'll be asking for a response about the different options for levels of coordination and about what kind of support could be provided to PNAMP, he stated. We are shopping for support, either in-kind or dollars, so we can conduct business on a more organized basis than we have been doing, Waste noted.

None of you talked about marketing, said Cassidy. He urged them to work with John Harrison on the Council staff to "put the word out" so people know what you are doing. Karier thanked the group for working on "what is not the most glamorous issue," but one that is very important. People are always saying "you need to count things the same way," and what you are doing helps us get there, he added.

10.IEAB report on the cost-effectiveness of fish passage alternatives:

Terry Morlan, manager, economic analysis; Dr. Ken Casavant, chair, IEAB; and Dr. Roger Mann, member, IEAB.

Staffer Terry Morlan told the Council that the IEAB's report on the cost-effectiveness of fish passage alternatives addresses both changes to summer spill and the question of building RSWs at the Snake River dams. Dr. Roger Mann of the IEAB explained the purposes, limits, and assumptions of the IEAB study, noting that it tried to create "win-win" scenarios that combine reduced bypass spill with other passage improvements. A scenario is desirable if juvenile survival is increased and costs to ratepayers are reduced, he said.

For a scenario that combined stopping August spill at Ice Harbor with extended-length screens at Lower Granite and Little Goose dams, the IEAB found that increased power revenues would be greater than the costs of the screens, providing a net revenue return of \$900,000 to ratepayers annually, Mann said. At the same time, survival of Snake River juveniles would be expected to increase by 0.31 percent to 1.11 percent, depending on the stock, he noted. The report sums it up by saying: "power revenues from reduced spill could fund passage improvements to increase juvenile survival while increasing net power system revenues."

Another scenario would combine stopping August spill at Ice Harbor with building a corner collector at Bonneville Dam. The IEAB found that would provide increased power revenue of \$1.26 million annually, and that survival of Snake River juveniles would increase 0.03 percent to 0.05 percent. Both of these scenarios are better than the status quo, but one benefits ratepayers more than the other, said Mann, adding that the choice between the two is up to policymakers, not the IEAB.

A third scenario would build an RSW and Behavioral Guidance System (BGS) at Ice Harbor and build a Bonneville corner collector. The IEAB found that combination would provide net power system revenue of \$6.26 million annually, with survival increases of 0.03 percent to 0.05 percent. All of the three scenarios increase survival, and we still have money left over to return to ratepayers, Mann said.

Cost-effectiveness analysis appears to be a useful tool for assisting decisionmaking on mainstem passage actions, and it should be possible to construct situations in which fish and ratepayers are both better off, he told the Council. Using cost-effectiveness analysis to evaluate the spill offset measures could produce win-wins, Mann added.

As for next steps, he suggested the IEAB could focus on: passage improvements that haven't been funded yet; other juvenile passage models; expanding the geographic scope of the current analysis to include the entire Columbia River; and trying to resolve transportation issues. Fish transportation issues are very important in how everyone views the efficacy of spill, Mann noted.

How does the IEAB get involved in evaluating issues? asked Hines. The IEAB should have played a bigger role in resolving the uncertainties associated with the mainstem amendments, he added. IEAB funding, and the time its members have to devote to these studies, is minimal, replied Morlan.

You've developed the right tool, Karier told Mann. Now you need guidance on what scenarios to study, he said. Morlan suggested that the Council could contract some cost-effectiveness analyses out and that the IEAB could guide and monitor that work.

Derfler asked how the figures in the scenarios Mann presented would change if spill were stopped in July as well as August. You'd get roughly the same kinds of results, replied Mann.

11. Briefing on the Introduction to the Fifth Power Plan:

Dick Watson, director, power division.

Watson presented the latest draft of the introduction to the power plan, noting that its function is to put the plan in context, describe the factors driving the Council's thinking, lay out a vision for the Northwest power system, and describe the primary areas of focus. He said, like the Council's first power plan that came on the heels of the Washington Public Power Supply System "debacle," this plan also responds to a major problem, the western electricity crisis of 2000-01. The first plan used the crisis as an opportunity to produce innovations in power planning and policy, and we hope to do the same with this plan, Watson stated.

He revisited the electricity crisis, noting that about 3,500 MW of permanent generation has come on line in the region since January 2000, and that as much as 4,000 aMW of load has been taken off the system. Eden asked what accounted for the drop in load, and Watson responded it was load reduction by the aluminum industry, as well as people just cutting back use.

Cassidy asked if the recent drop in the dollar might make the Northwest aluminum industry become more viable. That's probably not a long-term situation, and electricity prices would still be high, Morlan replied. I'm not sure the currency change is enough to offset other disadvantages, he said.

Changes in hydro operations were another response to the crisis, Watson said, noting that the region got 4,500 MW-months of additional energy from spill reduction. As for the vision for the Northwest power system, we're looking for "a well-functioning system comprised of a mix of independent and utility-owned generation, a regulated transmission and distribution component, and an effective consumer demand response mechanism," he said.

12. Briefing on the “Where We Stand” chapter of the Fifth Power Plan:

Terry Morlan.

Morlan described a draft of the “where we stand” chapter of the plan, which summarizes current conditions of the regional electricity system and key assumptions for the future. He said electricity demand dropped by 2,800 aMW between 2000 and 2002, attributable to increasing electricity prices, the changing industrial mix, and conservation. Morlan explained that the plan’s demand forecast range is lower than it has been, primarily due to the aluminum industry dropoff. “We don’t see the region’s aluminum industry as being that competitive anymore,” he stated.

There is growing resource diversification and the expected load/resource balance for 2004 is a surplus of about 1,000 aMW, according to Morlan. The plan’s analysis of critical water and load resource balances, with different demand forecasts, shows that in the medium-demand case, the surplus would last until 2012, he said. But there’s a sensitivity to the demand forecast, Morlan pointed out. With a medium-low demand, the surplus lasts out to 2013 and beyond, while with a medium-high demand, the region is somewhat deficit throughout the 2004 to 2013 period, he said.

Morlan explained key assumptions about generating resources, including higher and more volatile natural gas prices and cost-reducing technological improvements for renewables. The draft plan indicates that about 2,680 aMW of demand-side resources are achievable over the planning horizon, higher than the last Council plan by quite a bit, he said. This is a result of higher avoided generating costs and the advent of new technologies in areas like lighting, which are less costly and more effective, according to Morlan.

Danielson asked if the possibility of threats to nuclear or hydro plants is factored into the analysis of uncertainties. All the models that deal with uncertainty address forced outages that could be from anything, including terrorism, Morlan replied.

Do you consider the implications of the BiOp in the power plan? Danielson asked. The models include current BiOp requirements, Morlan responded. We haven’t looked at changes to the BiOp in the future, but it would be easy to do that, he added.

13. Introduction to Risk concepts in the Fifth Power Plan:

Michael Schilmoeller, senior power systems analyst.

Staffer Michael Schilmoeller presented an extensive discussion of risk concepts and decisionmaking as they relate to the Council’s fifth power plan. He talked about how risk is reduced by strategies such as hedging and using operating and planning flexibility. The plan, Schilmoeller said, will address such questions as: how much resource does the region need relative to its requirements; how do we evaluate whether the region has adequate resource diversity; and how do we create incentives for new generation or other actions that will reduce the likelihood of another energy crisis?

Cassidy asked about the extent risk can be mitigated by the regulation of power as an essential public service. Kempton cited California as an example where a regulatory action changed the cost of power at a particular point in time. He said there was a decision to keep prices from

rising, but six months to a year later, prices did go up. We are capturing those kinds of possibilities, Schilmoeller said. We'll arrive at a plan that gives us robustness with respect to actions like prices being capped, he added.

14. Panel to comment on future role of Bonneville:

"Okay, now what?" is the question at hand, said staffer Dick Watson, noting that the deadline for Bonneville customers to sign the litigation settlement expired the day before. He introduced a panel to address how best to move forward with the regional dialogue on the future role of Bonneville. The settlement failed, but the region did make a "remarkable affirmation" of the effort to resolve the litigation matter, said **Paul Norman of Bonneville**. He pointed out that 86 public utilities supported the settlement in some formal way, while six opposed it. While we will keep working on rate issues, we think we've been putting off attention to regional dialogue subjects for too long while we worked on the settlement, Norman stated. It's time to get to work on the long-term issues, he said.

John Saven of Northwest Requirements Utilities (NRU) said there are positive parts of the settlement that are still under discussion and could be implemented if there's the political will. The joint customers are continuing to meet and are prepared to address a wide range of issues, he stated. I recommend that we have periodic meetings with the Council after we have been given time to develop recommendations on the key issues, Saven said. He noted that the Council is scheduled to make its recommendations on Bonneville's future in April and that Bonneville has said it will issue its proposal by June, with a final decision in the fall.

We want to continue our meetings in January and February and meet with the Council in March to talk about the technical issues we've been working on, Saven said. Some of us want strategies that lead to moving forward with parts of the settlement for the FY 2007-11 period, and I encourage you to support that happening, he told the Council.

There's no immediate interest in federal legislation with respect to Bonneville's role, Saven said. The questions that have to be addressed involve contracts, and to the extent that other issues need addressing, I think we should do that after we get the 2007-11 direction set, he suggested.

Solving these issues can only be done by those who understand the contracts and their technical aspects, Saven continued. We don't need an outside facilitator in the next few months to play a role like Chuck Collins had in the Comprehensive Review, he said. The customers will work together jointly and aggressively because we know the Council and Bonneville will be moving forward with a proposal, Saven stated.

The Council has expressed an interest in tiered rates, and that approach may not be necessary for the 2007-11 period, he indicated. That issue has to be looked at in the context of the contracts customers already have, Saven said. I suggest that you give the joint customers a certain amount of time to work on the technical issues and then begin meeting with them early in March, he stated. Saven advised the Council to "keep an open mind" on tiered rates and other topics until it sees what the customers propose.

The joint customers appreciated the Council's critique of their earlier proposal, he stated. It created a good working environment, and because of that, "there's more receptivity to working closely with you on these upcoming matters," Saven concluded.

Rob Sirvaitis of Power Resource Managers said there's a need for urgency to resolve these issues and that the joint customers may want to meet with the Council before early March. Utilities are looking at who will serve their loads, and those long-term resource acquisition decisions need certainty and durability, he said. There are three options to provide certainty – rates, Bonneville policies, and long-term contracts, Sirvaitis said. Customers prefer contracts, rather than the first two, he noted, adding that rate decisions and Bonneville policies can change every few years, while long-term contracts offer more certainty.

Sirvaitis suggested there could be a way to sign contracts before 2006 and have implementation for individual utilities staggered within the 2006-11 period. Having an external deadline imposed can help in getting issues resolved, he said, recommending that the Council ask the parties for frequent updates in order to help move the process along.

Pat Reiten of PNGC Power said he believed all along that lack of a settlement would make the process of deciding Bonneville's future role more difficult, and "now we'll see if that is true." As part of setting Bonneville's load obligations and understanding Bonneville's underlying cost structure, we need to define IOU benefits as part of a future allocation, he stated. It will be more difficult to get consensus on that, given the fate of the settlement, and it appears that will play out in court; but in the meantime, Bonneville will have to interpret the contracts as they currently exist, Reiten said. I hope that the substantial support in the region for the settlement that Paul referred to will keep the IOUs at the table talking with us on these issues in a way that is good for the region, he added.

There should be no less pressure to move forward to define Bonneville's load obligations, according to Reiten. We have to avoid the crushing impact associated with augmentation costs and particularly, the volatility that exposure brings, he stated. It's important to remember that the huge costs helping to drive the LB CRAC are related not only to the cost of buying power to meet Bonneville's excess loads, but also to trying to manage the volatility associated with that, Reiten said. Avoiding volatility is why Bonneville entered into load buy-down contracts at fixed prices with the IOUs and also led to the \$200 million litigation penalty provisions, he pointed out.

Bonneville has to decide how it is going to handle service to the DSIs and other parties that have expiring five-year contracts, Reiten said. Politically, Bonneville has to bring some stability to its costs and rates, and I think it has a responsibility to help foster a more liquid, better traded market where utilities have price signals that aren't distorted and the ability to exercise choice in how they manage their resource futures, he added.

We can't afford not to keep heading toward a near-term conclusion to answer the question of what Bonneville's role should be post-2007, Reiten continued. Others have suggested that there is no projected crisis and that we don't have to move quickly because consumer-owned utility loads roughly match Bonneville's expected inventory in FY 2007, he said. I think the answer is just the opposite, Reiten told the Council. If we wait until there is a substantial gap one way or another, we'll have to gird for the difficult fights over allocating a shortage or assessing stranded costs, he said. Neither of those fights is conducive to getting to the place the Comprehensive

Review, the Council, the joint customers, and Bonneville have said we need to get to, Reiten stated.

The Council has a critical role in pushing these deliberations forward, he said. Time is short, and utilities need some certainty about the price signals they'll face prior to entering into commitments for new power resources, Reiten noted. Bonneville's commitment to issue a draft policy on or around June 1 provides a reasonable deadline that should validate the Council's April timeline, he said. June 1 also happens to be the date by which Puget and PacifiCorp have to make a "use-it-or-lose-it" decision on the first installment of the \$200 million litigation penalty, Reiten pointed out. I hope that progress on the long-term issues may help convince them we're heading in a more collaborative and useful direction, so that "they feel comfortable walking away from that money," he said.

We are comfortable with the work group processes the Council has proposed and want to note that the customers will also be working to resolve key issues so we can feed those answers into your process, Reiten stated. There are three key aspects that ought to be recognized in any product that you put forward, he said: 1) new resources need to be put on the margin, rather than melded; 2) whatever mechanism is used to do that needs to be durable so utilities can make reasonable long-term decisions based on price signals that are predictable; and 3) Bonneville's customers need to be treated equitably – there should be no special deals that benefit one group at another's expense.

It's critical that the Council, and by implication the governors, are firmly on the record in expressing your expectations, Reiten stated. We're willing to continue to try to be as helpful as possible, he said.

Scott Brattebo of PacifiCorp said he wanted to "echo all that Pat said," and that Reiten's remarks reflect the IOU point of view. He noted that there is another trigger point besides June 1 when the IOUs can end the \$200 million deferral. We'll be talking with the state utility commissions about this issue, Brattebo said.

We'll continue to work with the joint customer group on long-term issues, but it's still unclear how to come up with an allocation for residential and small farm customers, and it appears that matter "is going to play out in court," he noted.

Brattebo, whose cell phone connection from a remote location was frequently inaudible, said he was disappointed the settlement had failed and that he didn't think the joint customers should give up. We can talk some more, and we hope to move forward in the future, he stated.

Eden asked Brattebo when the deferral issue would be taken to the utility commissions, and he replied within the next two to three weeks. Eden asked him to send Council members an e-mail summarizing his remarks since the phone reception had been so poor.

Steve Weiss of the Northwest Energy Coalition also expressed disappointment the settlement did not go through. We are not seeking a long, drawn-out Comprehensive Review-type process – "that was kind of over-the-top," he said. While we are not opposed to tiered rates, that issue is much tougher than anyone thinks, and "I'd be surprised if we ever get there," Weiss noted. There are many other significant issues in play that could be attacked separately and not linked to a complete "package" with tiered rates, or to 20-year contracts, he said.

The Council's goal should be to produce a set of recommendations that is as much of a consensus as possible, according to Weiss. Without deadlines and the knowledge that Bonneville and the Council will move on their own, customers will not come up with a solution, he said.

I'm a little disturbed if customers think they will bring a package to you without including the participation of other interests, such as environmental and consumer groups or state regulators, Weiss continued. "Customers like to sit in a back room and talk to each other," but I'm asking that you let us in, he stated.

We recommend, Weiss said, that the Council facilitate workshops around separable issues, including conservation, renewables, allocation of Bonneville's low-cost power, the IOU exchange, adequacy, contracts, cost control, and fish. We think staff should make recommendations to the Council based on the workshops, he stated. If there's not a consensus on an issue, staff should make a call and bring a recommendation forward, Weiss advised.

While it's true that tiered rates would reduce Bonneville's volatility and that rates would stabilize, it would just shift the problem to the utilities, he stated. When they see the details, utilities may question whether taking on that risk is a plus, compared to leaving the risk with Bonneville, which has more tools to lean on if things get tight, Weiss said. To think that utilities will be better off if they take the risk off Bonneville is "at least problematic," and to think that tiered rates would be "manna from heaven, I'm skeptical," he stated.

Helen Goodwin of Bonneville said the agency shares the panel's sense of urgency and that it is committed to releasing a draft policy by the end of June and a Record of Decision by fall. We want to move ahead informed by customer consensus, but we have to move ahead regardless, Norman stated.

If resolving all the issues in one construct becomes infeasible, do you have a prioritized list of issues the region should focus on first? Hines asked. Yes, replied Norman, indicating that by the end of the year, Bonneville wants to have a decision made on its long-term load-serving obligation and resolve a whole set of issues related to its obligations in the 2007-11 period. I think that tiered rates are going to be part of the solution and hope we can launch that by the end of the year, thus setting us up for the 2005 rate case, he stated. We agree that contracts are the best way to nail down Bonneville's role, Norman said. We are exploring whether we can do something that is "more simple, contractually" that would give customers more certainty about the role Bonneville will play, and we plan to accomplish that this year, he added.

We really need to push ahead, said Karier. To make our April deadline for a recommendation to Bonneville, we need input, he noted. The portfolio of solutions is pretty well collected – we need to eliminate some and focus on the ones to implement, Karier stated.

Jim Kempton commended Saven for his efforts to pull the joint customers together and produce a viable product. The Council doesn't have to be fully in the race "to keep the engines warm and still cross the finish line in time," Kempton stated. He said the Power Committee has drafted a letter to go out next week that identifies the objectives of the first workshop as follows: identify critical path issues on which it is essential to reach agreement; identify work groups for the issues; establish a schedule; and select a steering committee to guide the process. Kempton asked the panel what they thought of those objectives.

The issues the joint customers are focusing on are issues where we have never come to a conclusion previously, such as a methodology to use if the federal system had a shortage, replied Saven. The future business relationship between Bonneville and its customers needs resolution, and I agree that some of what Steve [Weiss] put on the table are issues to be resolved, Saven said.

The 2007-11 contractual issues are the most germane to the document Bonneville will offer you, he said. Is your focus the 2007-11 period or bigger-picture issues? Saven asked the Council. At the first workshop, we would establish the organizational structure and set parameters, replied Kempton. The first week in February would be the latest we'd have the meeting, he added.

15. Status report on Governors' June 2003 recommendations:

Doug Marker; and Dick Watson.

Watson and Marker presented a draft letter to the four governors summarizing what the Council did in 2003 to accomplish the tasks the governors set forth in a June 2003 letter. Council members suggested several language changes to the letter. Danielson asked for all editorial suggestions from Council members to be submitted by January 27 so the letter can be sent out on January 28.

16. Council Business:

– Approval of Minutes

Eden moved that the Council approve the minutes for the December 9-11, 2003 meeting. Hines seconded, and the motion passed unanimously.

– Subbasin planning master contract -- shift funds from Level II back to Level III

Staffer Peter Paquet presented information on a reallocation of subbasin regional technical assistance funding that would move \$100,000 from the Montana portion of the Level II subbasin planning funds back to regional technical assistance (Level III). Cassidy expressed concern about "the amount of money the Council is sending to Mobrand." I want to be sure we are getting the assistance we need as a result of this "constant drain of funds," he said. We've agreed there will be no expansion of the contract unless we have deliverables in writing, replied Paquet. Karier said he had asked for a report on the dollars being put into the EDT, but never received it. If we are putting this amount of money in, it would be helpful to see what EDT products are in hand, he stated. Paquet said a report that breaks out the information would be forthcoming, and Danielson urged staff to scrutinize all contracts to ensure there is no overspending.

Hines moved that the Council approve the reallocation of funds under the Council's Master Contract for subbasin planning with Bonneville from Level II to Level III for regional technical assistance. Eden seconded, and the motion passed unanimously.

– **Election of Officers**

Karier nominated Eden to be vice-chair, noting that in a short time, she has shown great leadership skills and been a great team player. Cassidy seconded, and the motion passed unanimously.

Cassidy nominated Danielson to be chair for the next year, characterizing her as a “good taskmaster” and skilled at bringing Council members together. She has committed herself to the Regional Dialogue and to working toward the consensus that has to be maintained, he said. Derfler and Kempton seconded, and the motion passed unanimously. Hines, Kempton and Derfler noted Danielson’s hard work in the past year, especially on mainstem issues, and her “fairness and responsiveness.” Hines said that with the election of the new officers, the Council has “the geographic distribution that we have all sought.”

Approved February 26, 2004:

/s/ Melinda S. Eden

Vice-Chair

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