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### **Council Meeting** **Portland, OR**

**April 8-10, 2003**

### **Minutes**

#### **Reports from Fish and Wildlife and Power Committee chairs**

Ed Bartlett, chair, fish and wildlife committee; and Jim Kempton, chair, power committee

Committee chair Ed Bartlett said the Fish and Wildlife Committee discussed several project funding issues, including whether to postpone selecting mainstem and systemwide project selection and Bonneville's request that the Council expedite funding decisions for several research, monitoring, and evaluation projects. We also had a report on the progress of Hatchery and Genetic Management Plans (HGMP), which are to be completed by the end of September 2003, he said.

Committee chair Jim Kempton said staffer Terry Morlan briefed the Power Committee on the fuel-price forecast for the power plan. The forecast has been affected by the situation in Argentina, the Iraq war, and the hard winter in the Northeastern United States, he reported. We also had an interesting presentation on renewable resources, particularly wind power development, Kempton said. The costs of wind power are coming down, with prices getting into the range of \$50 to \$75 per megawatt, he indicated. Representatives from Alberta gave a briefing on the oil sands development project, which has the potential to be a fuel source for cogenerated power that could be imported into the United States, Kempton continued. The committee also discussed the role of conservation in the region's power supply and the implications for the fifth power plan, he concluded.

#### **1. Council decision on mainstem amendments to the 2000 Columbia River Basin Fish and Wildlife Program**

Doug Marker, director, fish and wildlife division; and John Shurts, general counsel

After weeks of discussion and compromise, the Council came to terms Thursday on mainstem amendments to its Columbia River Basin Fish and Wildlife Program. The amendments, which

contain fish and wildlife objectives and strategies for the mainstem of the Columbia and Snake rivers, were adopted April 10 on an eight-to-zero vote.

A draft of the amendments was released in October, followed by a public comment period. After the comment deadline in February, Council members and staff worked to assemble final amendments. The Council added a special meeting at the end of March to continue its work. The final amendments have not yet been published, but the following highlights several of the decisions.

In outlining its “overarching strategies,” the Council accepted measures in the NOAA Fisheries and U.S. Fish and Wildlife Service (USFWS) 2000 BiOps, but recognized the need to test assumptions and uncertainties in the BiOps related to spill, flow, reservoir drafting, predator control, and harvest. The Council said it supports the development of tests and experiments for the hydrosystem, even where they require temporary departures from BiOp operations.

Specifically, the Council called for testing: the relationship between fish survival and various levels of spill; new spill technologies, such as removable spillway weirs; operations at the dams to determine optimum fish survival through the turbines; the benefits of flow augmentation and the flow/survival relationship; the effects of steady outflows from Libby and Hungry Horse reservoirs; the effects of shifting summer flows to later in the summer; the impact of predation in the mainstem; and the impact of harvest operations, as well as other uncertainties proposed by independent science panels and fish and wildlife managers.

Clean Water Act. Melinda Eden proposed that the vision statement for the amendments make reference to meeting water quality standards under the federal Clean Water Act. We are striving for conditions under which fish and wildlife can thrive, and the Clean Water Act would play a role, she said. After some debate, the Council agreed to add the reference.

Smolt-to-Adult Returns. John Hines questioned whether a 2 to 6 percent smolt-to-adult survival rate (SARs) is the best interim objective to use for the amendments. Staffer John Shurts pointed out that the SARs standard is the consensus position of the tribes and was suggested by the anadromous fish managers. I’m troubled by adopting a standard that is not necessarily achievable, Hines said. A majority of members opted to stick with the 2 to 6 percent SARs as the objective.

Juvenile Fish Transportation. The Council continues to accept transportation as “a transitional strategy” and will give priority to funding research that measures the effect of improved inriver migration compared to transportation, and the rate of adult returns to the spawning grounds of transported and inriver migrants.

Spill. The Council said spill should be managed according to the most biologically effective level at each project, and the amendments call for “rigorous evaluation” of the effectiveness and costs of spillway passage. Summer spill came under scrutiny, with Gene Derfler questioning whether spilling water equal to about \$80 million in power revenues makes sense when the Northwest is suffering through a recession. The spill is going on when there are few fish in the river since most Snake River fall chinook are transported, he pointed out. In the end, the Council called for immediate tests to examine the benefits of summer spill for outmigrating juvenile fall

chinook and to determine whether the benefits could be achieved in a more effective and less costly way.

Spring Operations. For spring reservoir/flow operations, the Council said refill should be a high priority at Hungry Horse, Libby, Grand Coulee, and Dworshak dams. In the draft amendments, the Council proposed eliminating the BiOp provision calling for reservoirs to be within one-half foot of the upper flood control curve by April 10. But the April 10 refill requirement was reinstated in the final amendments. The Council endorsed the BiOp provisions for spring and summer water management in the Snake River and added that Bonneville, Idaho Power, and the Bureau of Reclamation should execute a shaping agreement to ensure that flows from Brownlee Reservoir are used to assist migration.

Reservoirs. The Council endorsed protections for resident fish in Montana reservoirs by proposing an experiment that would shift the amount and timing of summer drafts. In conjunction with the shift, the amendments call for experimentation and evaluation of the flow-survival relationship through the lower Columbia system, particularly whether flow augmentation from the upper Columbia storage projects has any effect on levels of survival. The amendments support VARQ flood control operations and integrated rule curves for Libby and Hungry Horse. Summer operations at Grand Coulee should minimize fluctuations and ramping rates and produce steady outflows, the Council said.

Fish Passage Center. The Council adopted language recommended by Larry Cassidy to clarify the purpose and role of the oversight board for the Fish Passage Center (FPC). The Council gave the oversight board responsibility to conduct an annual review of FPC performance and directed the FPC to prepare an annual report. The amendment also makes clear that the FPC database of fish passage information is to be shared with the region, not just with fish and wildlife managers.

### **Decision – Approve Amendments**

Karier made a motion that the Council amend the Columbia River Basin Fish and Wildlife Program by adopting the mainstem amendments set forth in the draft amendments for public review, as revised by the members at this meeting; direct the staff to make conforming editorial corrections subject to the approval of the Public Affairs Committee; and direct the staff to prepare written findings for Council approval as required by the Northwest Power Act. In a roll-call vote, all members voted in favor of the motion. In voting to approve the amendments, Tom Karier pointed out that the Council's process attracted widespread attention and participation in the region, and he said the final product reflects the diversity of the input. Hines said he saw the final amendments as a product of the Council working in collaboration to protect, mitigate, and enhance the region's fish and wildlife resources, while providing an adequate, economic, efficient, and reliable power supply. Eden said the state of Oregon remains concerned that the fish and wildlife affected by hydrosystem development might not yet be on the road to recovery. Jim Kempton praised the studies and analyses that were part of the amendment process.

## **2. Council decision on reallocations of Bonneville project funding**

Marker reported that the fish and wildlife committee will take an additional month to complete a review of projects for the Mainstem-Systemwide Province. Bonneville requested expedited approval of four research, monitoring, and evaluation (RM&E) projects, one of which was initially rated as non-fundable by the Independent Scientific Review Panel (ISRP), but later won ISRP approval, he explained. The ISRP has been critical of the federal-agency approach to RM&E and rejected some projects because they don't represent "a cohesive package," Marker indicated. Bonneville wants approval of the four RM&E projects to meet a BiOp check-in deadline, he continued. There is intense competition for funds in the mainstem, and we asked Bonneville to explain why these projects warrant such a high priority, Marker said. An April 7 letter from Bonneville arrived too late for the committee to consider, he added.

Karier pointed out that RM&E has been "a long-standing issue" with the Council. We have not seen good data, and there have been data gaps, he said. I thought there was an effort going on in the region to create a comprehensive package, but Bonneville has submitted a letter asking for \$10 million for projects that are new starts, Karier indicated. Marker said there is also concern about selecting projects "just to meet" the BiOp check-ins.

While the letter from Bonneville came in late, the issue is "are these good projects and do they warrant passage," Cassidy stated. The four projects look significant, and we ought to make our decision based on their merits, he added.

But the other issue is whether they follow the process, Kempton pointed out. He noted that there is a problem with a perceived conflict of interest, since NOAA Fisheries is both writing BiOp requirements and doing the work outlined in the projects. Marker acknowledged the ISRP is concerned since the NOAA Science Center would do the work and NOAA Fisheries is writing the requirements.

Karier said the federal agencies are working on a research plan for implementing the BiOp, but "that is only part of the picture." Until we have the whole context laid out, "we'll have crisis management and arbitrary decisions," he stated.

Marker said staff recommends the Council act on the four RM&E projects during an April 21 conference call. The Council agreed to delay its decision until then.

Marker reported that since the Council submitted its recommendations to Bonneville on how to pare the fish and wildlife budget to \$139 million for FY 2003, problems have arisen for projects that accrued costs while closing out, and for ongoing projects that are in "immediate critical need" of more funds to protect existing investments. We set \$1.4 million aside out of the \$139 million so we would have flexibility, and we recommend these costs be covered, he said. The 16 projects that are closing out need \$473,554, and three ongoing projects need \$599,000, Marker stated. Since the Columbia Basin Fish and Wildlife Authority (CBFWA) has not had an opportunity to weigh in on reallocating funds to the three ongoing projects, we'd like to give them a week to object, he added.

One of the ongoing projects, the Colville Tribal Hatchery, submitted bills for 2002 work after the end of the fiscal year, and it turns out it was a significant amount, Karier said. I don't think we'll save anything by not taking care of this now, he added.

What if we consulted with CBFWA, got their reaction, and then decided? Bartlett suggested, adding that he is concerned about approving something without knowing how CBFWA would react. These projects will be out of money very soon; they are in immediate need of funding action and could shut down otherwise, Marker responded. Bartlett pointed out that the Council is going to be faced with reallocations throughout the fiscal year. "It looks like it will be a frequent problem," he said.

This comes at the expense of fish and wildlife projects that were deferred, Danielson stated. Isn't this a case of not following our process? she asked. We are deferring projects, and because of this billing problem, we are being asked to make the sponsor whole again, Danielson stated. "There's an equity issue here," she added.

It's critical we send a message to the Colville hatchery that we will fund this, Karier stated. With a hatchery operation, you can't take a break – expenses will keep coming, he said. Eden said she agreed. It's not a billing problem we can lay on the project sponsor – they adhered to the Bonneville billing practice that was acceptable in the past, she noted. How long would it take CBFWA to respond? Eden asked. CBFWA executive director Rod Sando said he could try to do something through an emergency mailing.

CBFWA approved this project in the past, Cassidy pointed out. The issue is the competition for resources, he noted. Kempton said he thought the decision needed to be made now. We will have to reprioritize fish and wildlife funds as we go along, he added.

#### **Decision – Reallocate Funds**

Bartlett made a motion that the Council recommend Bonneville reallocate \$599,000 for three projects with critical needs and reallocate \$473,554 to pay the accrued costs for projects proposed to be closed out. Cassidy seconded the motion, which passed unanimously. "Whoever is best at making their case will do well in this process," Danielson observed.

Staffer Bruce Suzumoto gave an update on the HGMP project, reporting that the plans are due to be completed by September 2003. An additional \$805,600 is needed for agency and tribal participation in Phases II and III of the HGMP process, he said. Marker pointed out there is a funding source for the HGMPs that won't affect other projects.

#### **Decision – Funds for HGMP**

Bartlett made a motion that the Council recommend Bonneville allocate "placeholder funding" not to exceed \$805,600 for the next two phases of the HGMP process, provided Bonneville identify funding sources for this process and develop a more detailed estimate of agency and tribal participation. Cassidy seconded the motion, and it passed unanimously.

### **3. Council decision to release issue paper for comment on proposed master plan for Coeur d'Alene tribal artificial production facility**

Mark Fritsch, fish production coordinator

Staffer Mark Fritsch updated the Council on the Coeur d'Alene Tribe's proposal for a trout production facility. The tribe and Bonneville submitted a master plan and supporting documents to the Council on January 13, 2003, he said. The ISRP subsequently reviewed the master plan and found it did not provide adequate basis for continuing the project, and staff subsequently prepared an issue paper on the master plan, Fritsch explained. This activity is part of the three-step process for hatchery approval, he added.

#### **Decision – Release Issue Paper**

Kempton made a motion that the Council direct staff to release the "Coeur d'Alene Tribe Trout Production Facility Master Plan" issue paper for public comment and give appropriate notice of its action. Bartlett seconded the motion, and it passed unanimously. According to a staff memo, oral comment on the issue paper will be taken at the Council's May and June meetings, and written comment will be accepted through June 13, 2003.

### **4. Council decision on proposed contracting for subbasin planning work plans and update on subbasin planning**

Lynn Palensky, subbasin planning coordinator. Grande Ronde

Staffer Lynn Palensky gave a status report on subbasin planning. She noted that all of the plans are due in May 2004, and 37 workplans have been approved by the Council and seven are pending approval in late April. By the end of the month, you will have approved 85 percent, or 50 of 59, workplans covering most of the basin, Palensky said. We've heard that it will take at least 14 months to develop a complete plan, so there's a question about the likelihood that those who are lagging behind will be able to finish the task, she indicated, adding that would be a topic for discussion at the Regional Coordination Group meeting on April 16.

Danielson cautioned Council members that they will hear from some subbasin planners that there isn't enough money to do a plan, but our response will have to be, "that's all there is."

#### **Decision – Contract with Grand Ronde**

Eden made a motion that the Council authorize the Executive Director to negotiate a contract with the Grand Ronde Model Watershed Foundation, in an amount not to exceed \$219,675, for development of a subbasin plan for the Grand Ronde Subbasin, observing the terms and conditions of the Council's Master Contract with Bonneville for subbasin planning, and following the Council's standard contracting policies and procedures. Cassidy seconded the motion, and it passed unanimously.

## **5. Presentation by Independent Scientific Advisory Board on tributary habitat restoration report**

Dr. Robert E. Bilby, Dr. Peter A. Bisson, members ISAB

Dr. Pete Bisson and Dr. Bob Bilby of the Independent Scientific Advisory Board (ISAB) reported on a review of strategies for recovering tributary habitat. According to Bisson, the objective of the review was to answer the question, “what concepts and strategies should be incorporated in habitat recovery actions to improve their chances for success.” We examined biological objectives; strategies, tools, and incentives for implementing restoration; the scientific foundation for habitat recovery; and procedures for monitoring and evaluation, he said. We know the subbasin process is in full swing, and we were considering the suggestions we could make, Bisson elaborated.

Tributary performance standards are referred to in the federal agencies’ “All-H” report, and they mean “the specific habitat states” that would achieve biological recovery, he continued. These standards become the “de facto” biological objectives for tributary habitat, Bisson explained.

The traditional approach has been to identify fixed standards, such as temperature, fine-sediment concentration, and dissolved oxygen, he continued. But the fixed standards do not easily accommodate the variability created by natural disturbances, such as fires, floods, and volcanic activity, and in the long run, such events make an important contribution to habitat and productivity, Bisson said. An approach other than fixed standards is to identify the distribution and range of natural conditions in unaltered watersheds to establish realistic habitat goals and trends, such as water temperature and stream characteristics, he explained.

“Don’t throw out the fixed standards, but recognize they have limitations,” Bisson advised. The fixed standards can be conceptually simple, ecologically unrealistic, and biologically unproductive, whereas the range of natural conditions are complex, allow for watershed dynamics, and acknowledge processes that create and maintain diversity, he explained.

An important question is whether habitat targets can be related to fish abundance or diversity, Bisson continued. To evaluate the biological effectiveness of habitat changes, you have to look at things at the watershed scale, he stated. But “the ultimate effectiveness depends on performance throughout the entire freshwater life cycle,” Bisson said. Performance must be evaluated at a scale that is sufficiently large to enable complete freshwater rearing, he stated. Most analyses of limiting factors and needed restoration projects have been directed at “reach-specific” habitat problems, and while these are well intentioned, they are not necessarily effective, Bisson said. At that scale, it is usually impossible to demonstrate the effectiveness of restoration efforts to enhance fish populations, he added. You have to look watershed wide “to see the signature of habitat restoration activities,” Bisson said.

Bilby took on the issue of getting from the conceptual to implementation of habitat recovery activities. The data needed to develop habitat recovery plans is rarely available, he acknowledged. Several approaches have been developed to using incomplete data on such things as habitat conditions, fish populations, and sensitivities to human actions, Bilby indicated. These include expert opinions, expert systems, and empirical models, he said. Expert opinion is the most common approach, but it can be highly subjective, according to Bilby. Expert systems,

which include Ecosystem Diagnosis and Treatment (EDT), provide a framework for organizing expert opinion and combining multiple scientific opinions, he explained. Empirical models depend entirely on the quality and availability of data, Bilby said. These are very good tools for taking a look at “what to do where,” he added.

The ISAB recommends that more than one analytical method be used, ideally both expert and empirical, Bilby stated. If multiple analytical techniques point to the same locations and habitat conditions as being important factors limiting fish production, then policy-makers can have more confidence in the conclusions, he said.

With regard to the scientific foundation for recovery, a common theme you will find throughout the ISAB report is the need for a larger time frame, Bilby said. Understanding large-scale patterns is important in subbasin planning in order to identify the best sites for protection and restoration, he stated. Bilby listed several elements of successful subbasin assessments, including a systematic inventory of conditions within the drainage system and explicit strategies for habitat recovery.

It is critically important that comprehensive monitoring and evaluation be implemented in the basin, he stated. Understanding the effect of habitat conditions on salmon populations requires repeated observational studies or extensive large-scale experiments, according to Bilby. He recommended trend, statistical, and experimental research monitoring as part of a monitoring and evaluation program and explained how each could be accomplished.

What percentage of total project funding should be dedicated to monitoring and evaluation? Cassidy asked. Maybe as much as 25 percent where data is poor, but that amount that could be reduced over time, Bilby responded.

The “take-home message” at this point is, “we don’t know the best way to determine restoration priorities,” he summed up. But there are lots of tools and they can be improved over time, Bilby said.

Where do we begin to find the best way to determine priorities? Hines asked. A good approach is to build outward from core areas, Bisson replied. Pick the places that are best and work out from there, he suggested. Should we use a standard approach to gathering data? Karier asked. Yes, but be flexible enough to incorporate improvements and new technologies, and pay attention to long-term trends, Bisson responded.

## **6. Discussion of Council comments on Bonneville SN CRAC process**

John Shurts, legal counsel; and Mark Walker, director, public affairs division

Shurts reported that Bonneville has published its initial proposal for the Safety Net Cost Recovery Adjustment Clause (SN CRAC) rate case. The proposal and accompanying studies provide justification for the SN CRAC increase, he stated. Parties to the rate case have a formal set of steps to follow, and non-parties, such as the Council, have the opportunity to comment at a field hearing April 16 or in writing by May 1, Shurts said.



Bonneville has “a huge financial and political problem,” he continued. Revenue has not come in as projected, and the agency is proposing a rate increase to cover its deficit, Shurts said. There are customers and Congressional representatives arguing against the increase, he added. Shurts said customers proposed that Bonneville take other steps, including cost cuts and using proceeds from refinancing Energy Northwest (ENW) bonds, to avoid a rate increase. Bonneville said it is willing to work on other options, but if and until something else is worked out, the rate case must proceed, he reported.

A large issue in the case is Bonneville’s costs, and the Council’s particular interest is in the way fish and wildlife costs are displayed, Shurts said. Our concerns are “a sideshow,” given the bigger issues in the rate case, he acknowledged.

Staffer Mark Walker offered a handout with the forecast of Bonneville’s 2003 Power Business Line costs. Bonneville expects to get spending down below 2001 levels in some but not all areas, he said.

In its 2000 rate case, Bonneville projected its 2001 expenses would be much lower than they were, Shurts said. Members of Congress are asking Bonneville if it will get to the spending levels projected in May 2000, but Bonneville Administrator Steve Wright has responded that conditions today are much different than they were when those projections were made, he explained.

Bonneville lost \$637 million during the first two years of the rate period and expects to lose more this year, Walker said. Bonneville could end up in 2003 with a big loss to recover through the SN CRAC, he indicated.

“The Council has a couple of issues with the proposal,” Shurts said. The expense estimates show \$139 million per year in fish and wildlife spending, and a footnote says that number is derived from various sources, including what is needed for the BiOps and fish and wildlife programs for non-listed species, he said. It’s not clear how the figure could be based on the needs of the BiOps and the Council’s fish and wildlife program, and you might comment on that, Shurts stated.

How is capitalization handled in the rate proposal? Karier asked. The proposal indicates there would be \$36 million available for capitalization during the remainder of the rate period, Shurts replied. Bonneville also included language that says any project that is capitalized must be credited to meeting a specific obligation, and the rate proposal puts a \$1 million threshold on capitalization, he stated. The threshold could be a problem, Karier observed.

I’d urge the Council to comment on the capitalization language in the rate case, Eden said. It looks like Bonneville is trying to limit the ability to capitalize, she added.

We have a long way to go on the issue of land capitalization, Derfler commented. Do we have any idea about the costs Bonneville will have for measures to meet the BiOp? he asked. Bonneville said it needs \$27 million for that purpose, but will try to get along with less, staffer Doug Marker said. Bonneville has the ultimate decision about spending fish and wildlife dollars, and it can fund its priority projects if it chooses, he added.

Hines said the Council ought not to abdicate its responsibility to implement the Northwest Power Act by deferring to Bonneville to determine fish and wildlife spending. This could set up “a train wreck” in the region, but that might have to happen, he stated.

Shurts suggested the staff prepare draft comments for the Council to consider during an April 21 conference call. Chair Judi Danielson endorsed that idea, saying the Council is concerned about ratepayers and Bonneville’s solvency.

## **7. Presentation on role of conservation in power supply and future potential**

Tom Eckman, conservation resources manager

Conservation is the top-priority resource in the Northwest Power Act, and it has played a major role in each power plan, staffer Dick Watson said. As the Council prepares a fifth power plan, it’s useful to look at what we’ve accomplished and consider the opportunities that remain, he said.

Staffer Tom Eckman presented “where we are” in assessing the potential for conservation in the fifth power plan. He started with a look back, noting that the first power plan was adopted 20 years ago this month. The first plan called on Bonneville and utilities to develop and implement an array of conservation programs; state and local governments to adopt more energy efficient building codes and standards; and the federal government to adopt energy efficiency standards for appliances and new manufactured homes, Eckman explained.

In the 1983 plan, staff estimated the range of potential conservation to be 660 average megawatts (aMW) to 4,790 aMW, he continued. After 20 years, Bonneville and the region’s utilities have acquired nearly 1,500 aMW of savings, and state and local energy codes have produced over 735 aMW, Eckman said. Federal agencies adopted appliance efficiency standards that have produced 375 aMW, he reported. Eckman indicated that the energy-efficient building codes, known as model conservation standards, produced more conservation than expected. In 1995, commercial construction boomed in the region, and we captured over 600 aMW as a result, he pointed out. It was a huge benefit to ratepayers since the cost of the savings was born by builders and building occupants, Eckman stated.

Overall, conservation efforts in the region have produced over 2,600 aMW of savings in the past 20 years, he reported. The cost of the resource has been relatively low, about \$2.1 million per MW, and the code changes have cost almost nothing, Eckman said. Conservation now supplies over 10 percent of the region’s electricity needs, and conservation was the third-largest source of electricity supply in the region in 2000, behind hydro and coal-fired generation, he stated. Conservation is now the second-largest federal firm power resource, Eckman continued, and it met one-fourth of the region’s load growth between 1980 and 2000. Conservation also significantly reduced the projected electricity sales in the region over the past 20 years, he said.

“We’re not done yet,” Eckman stated. For the fifth power plan, we’re looking at opportunities new technology provides for improving efficiency and at improving installation and operating practices for equipment that already exists in homes and other buildings, he said. We see cost-

effective opportunities in the residential sector with appliance efficiency, water heating, lighting, and space conditioning, Eckman added.

Staffer Charlie Grist outlined the “non-building” potential in the commercial sector, which includes packaged refrigeration, such as vending machines and stand-alone refrigeration units; LCD computer monitors; networked computer power management; LED exit signs and traffic signals; and municipal water and sewage treatment. There are up to 350 aMW of savings available with these measures at 20 to 30 mills per kilowatt-hour, he said.

Eckman said there is more potential for cost-effective conservation savings, and preliminary estimates show about 3,250 aMW available over the next 20-plus years. Both improved technology and higher avoided costs contribute to cost-effectiveness, he added. Eckman offered a chart that shows residential appliances, space conditioning, water heating, and lighting offering over half of the potential for future cost-effective conservation.

### **Decision – Write Letter**

Kempton presented a draft letter urging members of the U.S. Senate to oppose provisions in the comprehensive energy bill that would pre-empt state authority to establish certain energy efficiency standards and give the Department of Energy authority to pre-empt others. The letter calls on the Senate to reject “this attempt to nullify existing state appliance standards and the states’ authority to establish standards,” he explained. Kempton moved that the Council approve the letter. Karier seconded the motion, which passed unanimously.

## **8. Status of report on planning for Fiscal Year 2004 fish and wildlife program implementation budget and associated Bonneville policies for capitalization and use of “carry-over” funding**

Doug Marker

Marker reported on progress to resolve several money matters with Bonneville, including capitalization of land, carrying over fish and wildlife project contract balances, managing 2003 project funding, and project review for 2004. Regarding capitalization, Bonneville maintains it will not capitalize land acquisitions for wildlife until we resolve how those acquisitions will be credited to the agency’s obligation for mitigation, he said. We are working on that issue through the Wildlife Crediting Committee, and we are following the SN CRAC process to make sure the right language on capitalization comes out in the rate order, Marker indicated.

We’ve had productive discussions with Bonneville on the carryover issue, and we’ll come back with something for you on paper, he said. Marker noted that staff would track Bonneville’s 2003 expenditures on fish and wildlife projects and look to access unspent funds through monthly reallocations. We’re also looking ahead to 2004 and considering the effect of the 2003 budget adjustments and deferrals on future project needs, he said.

I don’t see how we can do this without carryover, Danielson commented. We have a new list of BiOp-critical and other projects that will require funding, and it’s become clear it will be impossible to run the fish and wildlife program without carryover, she stated.

## **9. Presentation on federal agency budgets for Columbia Basin fish and wildlife restoration**

Doug Marker and Mark Walker

A few years ago, there was pressure to come up with a “crosscut budget” for Columbia River Basin salmon and other fish and wildlife spending, so there would be a better sense of where dollars were available and how much was being spent overall, Walker told the Council. The Council on Environmental Quality has been putting out a crosscut budget for a couple of years, and we used what they prepared as a basis for this presentation, he said.

The amount available in FY 2003 to 11 federal agencies totals \$575 million, Walker reported. Of that total, \$285.3 million is Congressional appropriations and \$289.7 million is Bonneville’s direct fish costs, he pointed out. In addition, budgets for the Pacific Coastal Salmon Recovery Fund and Pacific Salmon Treaty total \$130 million, boosting overall spending to \$705 million in 2003, Walker said. In 2004, the proposed budget drops to \$678.9 million, primarily because Pacific Salmon Treaty funds will be capitalized rather than expensed, he indicated.

Walker went through more detailed fish and wildlife budgets for the Corps of Engineers, Reclamation, USFWS, NOAA Fisheries, and Bonneville, indicating where major increases or decreases in spending have occurred from the FY 2002 enacted federal budget to the FY 2004 proposed budget. The big item in the Corps’ budget is the Columbia River Fish Mitigation Project, which accounts for \$95 million of an \$158.4 million total proposed for 2004, he said. Congress “doesn’t meddle much” in this program; it appropriates the money and leaves the specific activities up to the region, Walker stated.

Reclamation has a proposed 2004 budget of \$19 million, all of which is for Columbia/Snake River salmon recovery, he said. The USFWS has a \$10.3 million proposed budget in 2004, and NOAA Fisheries has a \$41.1 million proposed budget for Columbia River Basin activities and \$90 million for other Pacific coastal efforts, Walker pointed out. Federal agencies are barred from lobbying for their own budgets, so the Council plays a key role in helping secure funds for salmon recovery, he noted.

Walker said the Council has historically sent a letter to the Congressional delegation about the region’s fish and wildlife spending needs. Budget legislation will be marked up in May and June, he said, adding that he will circulate a letter for Council review in the next week.

## **10. Update on Bonneville Power Administration financial condition**

Jim Curtis, chief financial officer, Bonneville Power Administration

Jim Curtis of Bonneville filled the Council in on Bonneville’s current financial situation. Bonneville has problems in three areas, “which Steve Wright refers to as the three legs of the financial stool,” he explained: liquidity, net revenues, and access to capital. Curtis outlined the typical seasonal pattern in which the agency accumulates cash reserves, noting that reserves generally dip at the beginning of the fiscal year, when most power sales revenue goes directly to fund the ENW budget. Reserves begin to build again with the winter heating season and

continue on an upward trend through August, he said. They fall sharply in September, when Bonneville makes its annual Treasury payment, Curtis stated.

Bonneville ended the 2002 fiscal year with only \$188 million in reserves, so 2003 began on a low note, he explained. In the current rate period, we're getting most of our revenue from preference customers – there are not a lot of sales to California – so a large percentage of revenue early in the fiscal year is going to fund ENW operations and there is less to replenish reserves, Curtis indicated. Bonneville's reserves were down to \$139 million in November 2002. "Cash is very tight," and we will have to use the cash tools we have available unless "the March miracle" continues, he said, referring to the unusually wet conditions that have prevailed this spring. If the pattern in 2003 follows that of 2002, we won't have the cash to pay our bills at the end of the year, Curtis stated.

Bonneville started the rate period in 2001 with large cash reserves and several hundred million in credits that could be used to offset fish costs, he continued. By 2002, reserves had diminished to \$188 million and fish credits to \$79 million, Curtis explained. Without an SN CRAC increase, the agency predicts it will fall into negative revenue territory by the end of 2004, he said. Bonneville projects losses each year from 2004 to 2006, and without an increase in rates, the deficit could grow to \$690 million by the end of 2006, Curtis indicated.

Congress recently authorized a \$700 million increase in Bonneville's borrowing authority, which raised the agency's borrowing ceiling to \$4.45 billion, he went on. Based on its capital-spending forecast, Bonneville will run out of borrowing authority within three to seven years, depending on whether the agency uses ENW refinancing savings to pay down Treasury debt and whether it is able to make its Treasury payment, Curtis explained.

Bonneville has been engaged in a debt optimization program, which entails refinancing the ENW bonds, he said. Extending the ENW debt reduces Bonneville's net-billing budgets and increases cash flow to the Bonneville fund, Curtis said. Bonneville applies the proceeds from the refinancing to prepay higher-interest federal debt, which reduces the agency's cost of debt overall and replenishes borrowing authority, he indicated. Curtis said Bonneville is refinancing bonds where there is at least a 5 percent profit to be gained.

The net cash flow from all of Bonneville's debt-management actions to date totals \$450 million, all of which has been applied to prepay federal debt, he reported. The ENW bond resolutions state that the debt has to be repaid in total by 2018, so the opportunity to refinance the bonds is finite, Curtis noted. Graphs illustrating the results of the debt restructuring indicate Bonneville expects to save millions in annual interest costs, particularly from 2010 to 2016.

Curtis acknowledged that the topic of capitalization is under discussion between Bonneville and the Council. The Generally Accepted Accounting Principles and other standards Bonneville follows don't leave much room for capitalization of fish and wildlife measures, but there is some leeway provided by Financial Accounting Standard 71, he said. The Administrator is comfortable with capitalizing some land acquisitions for wildlife, if crediting is worked out and there is demonstration of a long-term benefit, Curtis indicated.

It looks like Bonneville will have to go back to Congress for more borrowing authority under any circumstance in the next few years, so it doesn't appear that a modest amount of capitalization for land acquisitions would be a big issue, Karier said.

Do you have a written policy on capitalization? Derfler asked. Language is needed in the SN CRAC rate order if we are to capitalize land, Curtis responded. We put language in the rate proposal that would allow for capitalization, but it's not yet policy, he added.

Is crediting the only barrier to capitalizing land acquisitions? Ed Bartlett asked. That and assuring there is a long-term benefit from the acquisition, Curtis responded. We understand that you are reluctant to capitalize these acquisitions, Bartlett said. If we can overcome the barriers, will you support capitalization? he asked.

It's up to Steve Wright; he has the policy discretion, Curtis responded. I advise him on what is consistent with accounting principles, and if a capitalization proposal meets those principles, I would say yes, he added.

## **11. Presentation on contract management and other natural resource programs**

Rod Sando, executive director, Columbia Basin Fish and Wildlife Authority; Don Friberg, U.S. Fish and Wildlife Service; Debra Wilhelmi and Jim Fox, State of Washington Salmon Recovery Funding Board

A recently formed Business Practices Committee, initiated under the auspices of CBFWA, has been discussing ways to get a handle on managing the region's fish and wildlife contracts and expenditures, Sando reported. He introduced several committee members, who talked about grant and project management systems.

Representatives of Washington's Interagency Committee for Outdoor Recreation demonstrated a software system called "PRISM," which was developed to manage grants, from application through project closure. Bonneville contractors described that agency's process improvements initiative, which includes improving Bonneville's fish and wildlife contracting function, and a USFWS representative described the system his agency uses to manage grants for fish, wildlife, and habitat restoration.

Is this PRISM software the type of thing Bonneville will look at to manage its projects? Karier asked. Bonneville has already been working with the PRISM providers, a Bonneville staffer responded. The cost of the software package is \$75,000, but that does not include tying it into Bonneville's other systems, she said. We are looking at what "we can beg, borrow, or steal" from it, she added.

## **12. Presentation by Bureau of Reclamation regarding legislation for authority to perform work on non-project lands**

J. William McDonald, regional director, Pacific Northwest Region, Bureau of Reclamation

Reclamation needs to obtain new statutory authority to meet its NOAA Fisheries BiOp obligations, according to Bill McDonald, director of Reclamation's Pacific Northwest region. The reasonable and prudent alternatives (RPAs) in the BiOp were built around the concept that actions other than those at hydro projects are necessary to avoid jeopardy to species listed under the Endangered Species Act (ESA), he said. In particular, RPA 149 requires Reclamation to improve fish passage and screening at non-federal water projects and to initiate this work at the rate of three subbasins per year for five years, McDonald stated.

There are several reasons for Reclamation to get involved in the habitat work, he continued. Reclamation owns and operates hydro projects for which mitigation is needed, and we will take care of our own projects, McDonald said. In addition, we understand irrigation systems and have a track record of local experience, he said. Reclamation has support in the President's budget for the habitat work, McDonald noted, adding that the 2004 increase in the agency's budget for Columbia River Basin salmon recovery activities is driven by the habitat work outlined in RPA 149.

The Interior Department proposed legislation last year that would give Reclamation the authority to provide money to non-governmental entities to plan and build fish passage and screening structures, he went on. The legislation would in no way extend the regulatory obligations of the ESA to others, McDonald said. We can get major improvements by working with private parties, but it will be purely on a voluntary basis, he stated. Private irrigators who have listed species "at their head gate" could have "a Section 9 taking problem," and we could help solve their problem, McDonald indicated. The bill is clear that ownership of diversion facilities remains in private hands and activities will adhere to state law, he explained. McDonald outlined other provisions of the proposed legislation and noted there is a cost-sharing provision for projects undertaken with private parties – 65 percent Reclamation and 35 percent private funds.

He pointed out that while the legislation was prompted by RPA 149, it would apply to projects outside the Federal Columbia River Power System and the agency's Columbia Basin Project. It applies to anything within the Columbia River Basin, McDonald said.

We are anxious to get this bill moving, he summed up. I'd hope the Council would entertain support for the concept in the bill, McDonald concluded.

Marker said there is a provision in the proposed bill that would prohibit the use of Bonneville funds to meet the non-federal cost share. Bonneville funding should not be considered federal funding, since the money comes from ratepayers in the region, he said. Except for that provision, we support the idea, Marker stated.

### **13. Council business**

#### **– Approval of minutes**

Karier made a motion that the Council approve for the signature of the Vice-Chair minutes of the March 11-12, 2003 meeting held in Whitefish, Montana. Cassidy seconded the motion, which passed unanimously.

Adjournment: The meeting adjourned Thursday, April 10 at 11:40 a.m.

Approved May 7, 2003

/s/ Tom Karier

Vice Chairman

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