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of the
Pacific Northwest Electric Power and Conservation
Planning Council**

Submitted to the

*Committee on Energy and Natural Resources
United States Senate*

*Committee on Energy and Commerce
United States House of Representatives*

and

*Committee on Resources
United States House of Representatives*

October 1, 2002, through September 30, 2003¹

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The Northwest Power and Conservation Council, known until 2003 as the Northwest Power Planning Council, was established pursuant to the Northwest Power Act of 1980 (Public Law 96-501) by the states of Idaho, Montana, Oregon and Washington. The Act authorized the Council to serve as a comprehensive planning agency for energy policy and fish and wildlife policy in the Columbia River Basin, and to inform the public about energy and fish and wildlife issues and involve the public in decision-making.

This annual report has been developed pursuant to Section 4(h)(12)(A) of the Northwest Power Act. The Council's bylaws, which include its organizational structure, practices and procedures, are available to the public at the Council's website: www.nwcouncil.org.

¹ This draft document reports on the Council's activities through September 2003. Following public comment on the draft, as required by the Northwest Power Act, the report will be updated before being submitted to Congress in January 2004.

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To the Citizens of the Pacific Northwest:

In 2003, the Northwest Power and Conservation Council recommended new guidelines for Columbia and Snake river dam operations, completed a major review of fish hatcheries, administered the ongoing process of developing subbasin plans to guide fish and wildlife project spending, and began developing long-term plans for fish and wildlife capital expenditures, monitoring, operations and research. The Council also assisted the Bonneville Power Administration in reducing its fish and wildlife costs in response to its financial crisis and worked closely with federal fish and wildlife agencies to incorporate recovery planning for threatened and endangered species with the Council's fish and wildlife program.

Also in 2003, the Council continued work on the next version of its Northwest Power Plan and joined Bonneville in renewing a public process to investigate options for the future of the federal power marketing agency.

These activities are consistent with the Council's responsibilities in the Northwest Power Act of 1980, which directs the Council to develop a regional power plan that includes a program to protect, mitigate and enhance fish and wildlife, and related spawning grounds and habitat, of the Columbia River Basin affected by hydropower dams while assuring the Northwest an adequate, efficient, economical and reliable power supply. Also consistent with the Power Act, the Council provides Northwest citizens an opportunity unique in the nation to participate in and influence regional decisionmaking regarding energy, fish and wildlife.

I am pleased to submit to Congress this annual report, which provides an overview of the Council's work in Fiscal Year 2003.

Sincerely,

Judi Danielson.
Chair

The Northwest Power and Conservation Council

The Council, known until 2003 as the Northwest Power Planning Council, is an agency of the states of Idaho, Montana, Oregon and Washington and was created as an interstate compact agency by the legislatures of the four states following President Jimmy Carter's approval of the Pacific Northwest Electric Power Planning and Conservation Act in December 1980. The Council's first meeting was in April 1981.

The Northwest Power Act gives the Council three distinct responsibilities: 1) to assure the region an adequate, efficient, economical and reliable electric power supply; 2) to prepare a program to protect, mitigate and enhance fish and wildlife, and related spawning grounds and habitat, of the Columbia River Basin that have been affected by the construction and operation of hydropower dams; and 3) to inform the Pacific Northwest public about energy and fish and wildlife issues and involve the public in decision-making. This annual report is organized around the Council's three key responsibilities.

There are eight Council members -- two from each state -- appointed by the Governors. A list of Council members and their office locations is at the end of this report.

In January 2003, the Council voted to change its name to emphasize the conservation aspect of its energy and fish and wildlife responsibilities. While "conservation" in the Northwest Power Act specifically refers to energy conservation, the concept of conserving natural resources is embodied in the Council's Columbia River Basin Fish and Wildlife Program in terms of enhancing, or conserving, fish, wildlife and habitat of the Columbia River Basin that have been affected by hydropower dams.

The Council's headquarters office is in Portland. Council member offices are located in Boise, Idaho, Portland and Milton-Freewater, Oregon, Helena, Montana, and Vancouver and Spokane, Washington.

2003 Governors' recommendations

In June 2003, the Governors of Idaho, Montana, Oregon and Washington released a series of consensus policy recommendations for protection and restoration of fish in the Columbia River Basin and the future role of the Bonneville Power Administration. These followed on fish recovery recommendations the Governors issued in July 2000, but in 2003 the Governors also included recommendations regarding Bonneville.

The 2003 recommendations included specific tasks for the Power and Conservation Council regarding fish recovery and Bonneville's future role. Here is a synopsis of the Governors' recommendations and the Council's response to each:

- Recommendation:

Bonneville, in consultation with the Council, should undertake a process to establish financial priorities within its own operations and focus its resources on those areas that are most critical to its mission and bring the greatest benefit to the Pacific Northwest. The process should provide external validation through participation and review by independent persons with knowledge of and experience in energy, fish and wildlife operations, budgeting, management experience and other relevant areas. The Governors asked for a progress report from Bonneville by the end of the (calendar) year.

Action:

Ruth Bennett, Bonneville's chief operating officer, consulted with the Council at the Council's August 2003 meeting. Later, Bonneville established a "customer collaborative" to give its customers better information regarding costs and the factors driving them. Bonneville also established the Power Net Revenue Improvement Sounding Board to suggest cost reductions and revenue improvements. Bonneville's target is \$100 million in power revenue improvements or cost reductions in fiscal years 2004 and 2005 in order to avoid a Safety Net Cost Recovery Adjustment Clause rate increase in Fiscal Year 2005. Council members are participating on the Sounding Board.

- Recommendation:

Bonneville and the Council should renew the regional dialogue on the future role of Bonneville in power supply.

Action:

As described in the Power Planning Activities section of this report, Bonneville and the Council renewed the regional dialogue in the fall of 2003, beginning with a series of meetings with Bonneville stakeholders. BPA participation in the regional dialogue was markedly restricted during, and after, October 2003 due to litigation settlement considerations involving existing IOU residential exchange contract provisions. Rejection of the proposed settlement by any single regional PUD or IOU will result in failure of the settlement process. The ensuing reversion to a climate of litigation involving as many as fifteen separate court filings will significantly impact any reasonable expectation of full regional cooperation in defining the future of Bonneville through the renewed dialogue process [See Page 10].

- Recommendation:

Biological opinions, required by the Endangered Species Act, should look to subbasin plans developed through the Council's fish and wildlife program to guide habitat, hatchery and harvest actions in Columbia tributary watersheds.

Action:

NOAA Fisheries and the U.S. Fish and Wildlife Service regularly review the progress and scope of subbasin plans in a forum of fish and wildlife managers convened by the Council and known as the Regional Coordinating Group. The two agencies repeatedly have affirmed their reliance on subbasin plans as key elements of recovery planning.

Specific expectations and questions for policy discussion are raised first within each state's subbasin coordination group and then as needed in the Regional Coordinating Group. This structure of communication is effective and can be monitored through representatives of the Governors and Council members.

- Recommendation:

State guidelines for salmon recovery plans should be endorsed by NOAA Fisheries and the U.S. Fish and Wildlife Service. The two agencies should identify contact persons in each state for this purpose.

Action:

Guidelines for recovery plans based in whole, or in part, on subbasin plans need to be proposed by states and confirmed by NOAA Fisheries. NOAA Fisheries has designated staff to work with state organizations. NOAA Fisheries' assistant regional administrator, a newly

created position for recovery planning, works directly with each state and the Council, and also represents NOAA Fisheries at the Regional Coordinating Group.

- Recommendation:

NOAA Fisheries' Technical Recovery Team (TRT) process and products must be coordinated with the Council's subbasin planning and regional processes.

Action:

NOAA Fisheries will provide interim rebuilding targets for ESA-listed species in the interior Columbia Basin for use by subbasin planners. The Council expects these to be delivered in early 2004. In the Willamette/Lower Columbia region, targets are available and recovery goals are being developed in coordination with the states.

- Recommendation:

NOAA Fisheries and the U.S. Fish and Wildlife Service should resolve with the Council and appropriate state organizations what legal assurances will be provided for approved subbasin plans and necessary procedural or review requirements by December 21, 2003.

Action:

NOAA Fisheries staff, working with the appropriate state legal authorities, are drafting approaches to possible incentives and regulatory assurances.

- Recommendation:

By fall, the Council should convene state, federal and tribal managers to integrate a monitoring system for fish and wildlife project implementation. The Council, with the same partners, should complete a draft systemwide research plan by December 31, 2003, including an equitable plan for funding.

Action:

A draft integrated monitoring plan has been developed by NOAA Fisheries, and the Council is coordinating review by states and tribes through appropriate state organizations and the Columbia Basin Fish and Wildlife Authority. The Council convened regional independent scientific and economic reviewers for guidance on a regional research plan and organized measures of the 2003 mainstem amendments to the fish and wildlife program for inclusion. The

draft research plan will be completed on the schedule requested by the Governors. The research plan and the mainstem amendments are discussed in more detail elsewhere in this report.

Power Planning Activities

Future role of the Bonneville Power Administration

In late 2002, the Council participated in the Regional Dialogue on the Future Role of the Bonneville Power Administration in Power Supply. In early 2003, work on this matter slowed as Bonneville and its customers turned their attention to Bonneville's financial crisis. Work on the Regional Dialogue resumed in the fall of 2003.

At least two immediate factors were the impetus for the Regional Dialogue. First, the power supply contracts of Bonneville's Direct Service Industrial (DSI) customers expire in 2006. The companies must know if they can expect service from Bonneville after 2006, and Bonneville must know how much power to supply in order to secure the necessary resources. A second and very significant factor was that after more than a year of discussions, the majority of Northwest utilities, both public and investor-owned, brought forward a proposal that would significantly alter Bonneville's future role in power supply in a way that would reduce Bonneville's risk and help secure the long-term benefits of the federal system.

These interests did not come together by accident, but in recognition of a set of problems that, if not resolved, could threaten the reliability of the regional power supply and the ability of the Northwest to retain the benefits of the Federal Columbia River Power System. These problems are the consequence of a mismatch between how Bonneville is called upon to operate and the realities of the evolving electricity system. The problems include:

- Periodic lack of clarity regarding load-serving responsibility;
- Lack of clear economic signals to many parties in the region regarding the true costs of new power supplies and the value of alternatives;
- Exposure of Bonneville to high electricity market risks resulting from the ability of customers to periodically place load on or take load off of Bonneville;
- A perception of inequality in the distribution of the benefits of the federal power system within the region;
- The financial risk to the U.S. Treasury and the resulting political risk to the long-term interests of the region if Bonneville is unable to absorb the risks of a highly variable hydroelectric system and a potentially volatile wholesale market in the future.

These are not new. The problems were recognized formally in 1996 during the Comprehensive Review of the Northwest Energy System, which was authorized by the region's Governors.² Many of the aims of the proposals for Bonneville's future that were offered by the

² The final report of the Comprehensive Review, [*Comprehensive Review of the Northwest Energy System*](#), is available from the Council as Document Number CR96-26, December 12, 1996.

Joint Utility Customers and the public interest groups during the Regional Dialogue reflect conclusions reached in the Comprehensive Review. These proposals are posted on the Council's website, at www.nwcouncil.org/energy/bparole/.

Following the Regional Dialogue, the Council prepared its own recommendations and forwarded them to Bonneville. These recommendations are supportive of the goals of the Joint Customer Proposal. These also are posted on the Council's website.

While work to further develop the Joint Customer Proposal was put on hold while the region dealt with Bonneville's financial crisis, the fundamental problems have not gone away. In June, the Governors of Idaho, Montana, Oregon and Washington urged the Council and Bonneville to reinitiate the Regional Dialogue. In doing so, the Governors stated:

"We stress the importance of achieving a role for BPA that is sustainable for the long term. The Council's recommendations provide direction and include:

- 1) Long-term contracts to demonstrate a continuing commitment to meet the costs of the federal power system and related stewardship obligations. Committing to long-term contracts will help preserve these benefits for the Pacific Northwest;
- 2) A limited role for BPA in serving the load growth of its customers. In most cases when BPA accepts the obligation to meet load growth, it should be on a bilateral basis with customers bearing the full cost of resources acquired to meet their needs;
- 3) Fulfillment of existing fish and wildlife obligations; and
- 4) Pursuit by BPA of regionwide conservation and renewable resource opportunities.

Until we accomplish these objectives construction of resources to meet new load growth will be delayed, placing the region at risk of another electricity crisis."³

Subsequently, the Council and Bonneville conducted a series of meetings with customers and other interests around the region. The major conclusion drawn from these discussions is that while some things may have changed and need to be re-examined, many of the basic elements of the original Joint Customer Proposal still have regional support and could form the foundation for moving forward.

³ *Recommendations of the Governors of Idaho, Montana, Oregon and Washington for protecting and restoring Columbia River fish and wildlife and preserving the benefits of the Columbia River power system*, June, 2003, p 12, <http://www.nwcouncil.org/library/2003/4governors.pdf>

The Council believes the region needs to move forward with the definition of Bonneville's future role as soon as possible, rather than waiting until the expiration of existing contracts is close at hand. The Council has proposed the following principles or characteristics as a guide.

Proposed Council Principles for the Future Role of Bonneville

- The goal should be long-term contracts (20 years) both to protect the system from interventions from outside the region and to reduce uncertainty for both the customers and Bonneville.
- Bonneville's primary role, in addition to transmission, should be managing the operation and marketing the output of the Federal Columbia River Power System. The FCRPS is a multipurpose public resource, and Bonneville has a record of real expertise in its operation and marketing.
- Bonneville's role in providing power beyond the capability of the federal base system should be limited to bi-lateral contracts or rate mechanisms that align the benefits and costs. This would limit Bonneville's exposure to market risks and reduce the uncertainty regarding who will be acquiring additional resources thereby reducing an impediment to resource development.
- Bonneville's role should be limited contractually. Although most customers' contracts run through 2011, these changes need to be enacted as soon as possible so as to protect the regional resource from outside interference and clarify the outlook for resource development
- Customer agreement to long-term contracts will require at minimum that Bonneville: 1) provide customers and others greater openness regarding their costs, the factors driving those costs and the decisions affecting them BEFORE decisions are made; 2) implement cost-reducing process improvements; and 3) rebuild trust with the customers and others that Bonneville is a good business partner.
- Revising Bonneville's role in acquiring and pricing the output of additional resources will require an allocation of the federal base system resources and benefits. Any allocation method for the FBS should be equitable and consistent with federal law while creating a broad constituency for Bonneville.
- A significant amount of the system should be offered as a "Slice" product . The slice product effectively distributes hydro risk and, by virtue of more diverse decision-making, should reduce the impact of hydro variability on the market.
- Benefits should be provided for the residential and small farm customers of the region's investor-owned utilities in a way that is judged to be equitable by the parties and is clear and transparent and not subject to manipulation by any of the parties.
- The question of service to the Direct Service Industries (DSIs) must be addressed. If power is made available to DSIs, the amount and term should be limited and contracts should be structured to allow Bonneville to capture benefits of DSI load interruptibility and provision of reserves. The smelters should be encouraged to reduce dependence on Bonneville power in the long-term.

- Any solution must contain a mechanism for ensuring continued regional development of cost-effective conservation, as determined through the Council's plans. While limiting Bonneville's role to develop new power supplies to bilateral arrangements with customers is a major step in the right direction, it is not sufficient to ensure the development of cost-effective conservation given the disincentives to utility investment in conservation. Reliance on local implementation is appropriate so long as there is a focus on cost-effectiveness and accountability and a backup mechanism is included to ensure that conservation is implemented. A direct Bonneville role in implementation is appropriate where there are economies of scale or other benefits from Bonneville's direct involvement.
- Similarly, a mechanism is required for ensuring that cost-effective renewable and high efficiency resources are developed. In particular, the ability of the hydro system to support the development of intermittent renewable resources, through the flexibility of the hydro system, should not be unduly impaired.
- Bonneville's ability to implement its fish and wildlife obligations must not be impaired.

The Council asked Bonneville's customers to review the original Joint Customer Proposal and the principles above and be prepared to begin discussions to resolve specific issues as soon as the settlement of litigation filed by public agencies challenging contracts Bonneville entered into in 2001 is final. At issue in that litigation is the calculation and delivery of a share of the benefits of the federal hydropower system -- the so-called "residential exchange" -- to investor-owned utilities. Bonneville asked the parties to the litigation to review the proposed settlement and accept it or reject it by mid-February 2004. The resolution of that matter will affect the Council's recommendations on the future of Bonneville. If the proposed settlement is approved, the matter of sharing benefits of the federal power system among public and investor-owned utilities will be settled, and that could suggest a different future role for Bonneville in power supply than if the proposed settlement is rejected and the matter of sharing the benefits is not resolved.

If the proposed settlement is rejected, the Council believes the regional dialogue on the future role of Bonneville will be elevated in importance, as the matter of the residential exchange likely would be addressed in that forum. In any event, the resolution of the residential exchange and the future role of Bonneville in power supply bear directly on the Council's budget because the budget is calculated based on a projection of Bonneville's firm power sales in the coming year.

The Council plans to discuss the future role of Bonneville with Bonneville's customers and other interested parties through January 2004. At that point, the Council will identify key issues for further review, appoint a steering committee and work groups to address those issues

and then, depending on whether the proposed settlement of litigation is accepted by the parties to it, develop recommendations and present them to Bonneville in April.

The Fifth Northwest Power Plan

The Council currently is working on its Fifth Northwest Conservation and Electric Power Plan. Its first plan, released in 1983, was developed in the aftermath of the region's attempt to construct several large thermal power plants and the subsequent catastrophic 66-percent real increase in retail rates in the region. In response to this experience, the Council's first plan brought new innovations to electricity system planning such as integrated treatment of conservation as a resource and methods for assessing and managing the risks associated with capital-intensive, long lead-time generation.

The Fifth Power Plan follows the 2000-2001 electricity crisis in the West. The crisis was triggered by the second-worst water year on record for the Columbia River and a failed attempt at industry restructuring in California. However, the crisis had its roots in 1) resource planning and implementation throughout the West that failed to adequately account for the risks inherent in the wholesale electricity market, and 2) the relative immaturity of the industry structure that now characterizes much of the West. The challenge for the Fifth Power Plan is to develop planning methods for assessing and managing the risks inherent in this market structure, to develop resource strategies that will meet the region's electricity needs at lowest cost with acceptable risk, and to provide insights into the resolution of some of the key issues affecting the industry in the Northwest.

The Council's power plans are built on a foundation of information: forecasts of future demands, fuel prices, conservation costs and potential, generating resource costs and performance, and so on. This information is both input to the Council's own analysis and reference information for utilities, regulators and the public. This information is developed through interaction with advisory groups made up of regional experts. Much of the basic information development is complete or nearly so. For example, Council conservation analysts have found that despite the fact the region developed 2,600 average megawatts of conservation savings over the last 20 years, there is approximately an additional 3,000 average megawatts of cost-effective savings to be developed over the next 20 years.⁴ Much of this potential is the result of new technologies that did not exist even a few years ago.

⁴ For reference, the annual electricity use of the City of Seattle is approximately 1100 average megawatts.

Analytically, the focus of the Fifth Power Plan is to do a better job of assessing risk and the ability of different resource portfolios and implementation strategies to moderate risk. The electricity industry is inherently risky. It faces a future of highly uncertain and variable loads, fuel prices, hydropower conditions, market prices and policy choices. It also has available to it a wide range of generation and end use technologies, each with different risk sensitivities. The approach being used in the Fifth Power Plan is called risk-constrained portfolio analysis. The objective is to have an analytical tool that will provide insights from a regional perspective and that can be scaled to the individual utility level as well. The development of this tool is nearly complete, and analysis of alternative portfolios is beginning.

The power plan also provides an opportunity for the Council to help the region toward the resolution of some of the issues that impede achieving an adequate, efficient, economic and reliable power system. The importance of many of these issues was made apparent during the 2000-2001 electricity crisis. The menu of issues before the Fifth Power Plan includes:

- The need for financial or regulatory incentives to ensure resource adequacy;
- The role of demand response in promoting efficient and reliable operation of the system;
- Strategies for ensuring adequate investment in efficiency resources;
- Achieving sufficient and workable regional solutions to the problems facing the regional transmission system;
- The value of resource diversity; and
- Satisfying fish and wildlife requirements efficiently and effectively.

By far the most important issue is the future role of the Bonneville Power Administration in marketing power to the region after 2006. As discussed earlier, the Council is reinitiating the Regional Dialogue on Bonneville's future role. The results of the Regional Dialogue will be incorporated into the Fifth Power Plan.

Several of the information building blocks and issue analyses for the Fifth Power Plan are available on the Council's website.⁵ The draft plan is scheduled to be available for public comment in May of 2004. A significant departure from past Council power plans will be a move toward a plan that is more flexible in adapting to the fluid, and sometimes chaotic, conditions of a Northwest wholesale power market combined with transitional transmission considerations. The final plan should be completed in late summer.

Energy conservation achievements

The Northwest Power Act directs that energy conservation be a key element of the Council's power plan. The Act describes the power plan as "a regional conservation and electric power plan" and says it "shall give priority to resources which the Council determines to be cost-effective," and that "priority shall be given: first to conservation."

Like its predecessors, the Fifth Northwest Power Plan will include aggressive strategies for developing energy conservation in the region. As a prelude, the Council reported in April 2003 on the region's conservation accomplishments to date. Overall, according to the report, the region's conservation efforts produced more than 2,600 megawatts of savings between 1981 and 2001. Conservation now supplies more than 10 percent of the region's energy needs and was the third-largest source of electricity in the Northwest in 2000, behind hydropower and coal-fired power plants. Conservation met one-fourth of the region's load growth between 1980 and 2000, according to the report.

There is much more cost-effective conservation still to achieve in the region, according to Council analyses. In the Fifth Northwest Power Plan, the Council will assess opportunities for new conservation technologies including improved installation and operating practices for existing home heating and cooling equipment, and in other buildings. Cost-effective conservation opportunities also exist in residential appliances, water heating and lighting. New opportunities exist in packaged refrigeration, such as vending machines, and in computer monitors, building exit signs, traffic signals, and municipal water and sewage treatment facilities, according to the report.

In 2003, the Council commented in opposition to proposed federal legislation that would pre-empt state authority to establish certain energy efficiency standards and give the U.S. Department of Energy authority to pre-empt other conservation standards.

Ongoing analyses of regional power system adequacy and reliability

Beginning during the West Coast energy crisis of 2000/2001, the Council issued periodic analyses of Northwest power system reliability and adequacy. Because of the Council's status as a regional agency with established expertise in power planning, these analyses were highly anticipated and enthusiastically received by utilities, political decisionmakers and the media. As the energy crisis abated, the Council continued to issue periodic updates, including one in early 2003.

⁵ <http://www.nwcouncil.org/energy/powerplan/default.htm>

That analysis, which utilized actual and forecasted river runoff volume data, showed there was less than a 1-percent chance of a power shortages for the remainder of 2003 and all of 2004. The forecast for near-average river runoff meant that more water would be available for hydropower generation. Additionally, the region's power supply picture has improved significantly as the result of the construction of about 3,000 megawatts of new power supplies since 2000 and demand has yet to fully recover from effects of the West Coast electricity crisis of 2000/2001 and the downturn in the economy.

The Council is continuing to monitor the region's power supply. Information is posted on the Council's website and is updated regularly.

Fish and Wildlife Activities

Subbasin Plans

The Council's 2000 Columbia River Basin Fish and Wildlife Program outlined a new review and selection process for projects that implement the program, a process that emphasizes locally developed subbasin plans to guide project funding. Collectively, subbasin plans are intended to be a basinwide blueprint for mitigating the impacts of hydropower dams on fish and wildlife and for coordinating recovery efforts for threatened and endangered species of fish.

Subbasin planning is a large-scale and critically important undertaking. For the first time in the Columbia River Basin, fish and wildlife agencies, local landowners and others with interest and expertise in the local environment and economy are collaborating to develop plans for all fish and wildlife, including threatened and endangered species. These plans will be consistent with locally developed subbasin-specific goals and also with the basinwide goals, objectives and strategies in the Council's program. Subbasin planning was designed by the Council to begin at the local level and build up, as opposed to being a set of guidelines created by government agencies and imposed from afar. The public response to the Council's approach has been supportive, overall, and literally hundreds of people are involved in the planning efforts throughout the basin.

There are 62 subbasins in the Columbia Basin. Plans are being developed in 58 of them (in three Montana subbasins there is no identifiable hydropower impact on fish or wildlife, and in the fourth, in Oregon, a habitat conservation plan is being developed on a different time schedule than the subbasin planning process). Subbasin plans will 1) identify goals for fish, wildlife and habitat; 2) define the objectives that measure progress toward those goals; 3) establish the strategies to meet those objectives; and 4) incorporate much of the existing information related to fish and wildlife activities in a subbasin in a single document. In addition to becoming the source of specific actions and projects recommended by the Council for Bonneville funding and implementation, subbasin plans have a role in recovery planning for NOAA Fisheries, the federal agency that implements the Endangered Species Act for Columbia River Basin salmon and steelhead, and for the U.S. Fish and Wildlife Service, which implements the ESA for other fish, particularly Kootenai River white sturgeon and bull trout. The federal agencies plan to rely on

subbasin plans developed through the Council's process as the foundations for recovery planning tasks. For example, the federal agencies' *Draft Endangered Species Act Implementation Plan for the Federal Columbia River Power System Biological Opinions* states:

“Subbasin plans will provide the framework critical to the development and success of the habitat strategy because they provide the ecological context for project identification. As the related recovery plans of the regulatory agencies become available, they too can inform the long-term habitat strategy of this Plan.”

Development of subbasin plans progressed significantly in Fiscal Year 2003. The Council is administering some 95 contracts for subbasin plan development. The deadline for submitting plans to the Council is May 28, 2004. After that, the Independent Scientific Review Panel will review the plans in a public process that is scheduled to last through the summer. In the fall, the Council will complete a formal process, including extensive opportunities for public comment and review, to adopt the plans as amendments to the fish and wildlife program.

In 2001, the Council and Bonneville established a \$15.2 million budget for subbasin plan development. So far, all but about \$1.7 million of that amount has been obligated by Bonneville, and the Council believes the overall effort will be completed within budget.

Project review

In 2003, the Council completed the first full three-year cycle of project reviews and recommendations by ecological province. The three-year project review cycle, in which the Council recommends projects for three years' of funding at a time, provides the opportunity for a thorough, independent scientific review of each project and also for detailed scrutiny by the Council of project schedules and budgets.

For major capital expenditures, such as construction of fish hatcheries, the Council has a detailed three-step evaluation process. Projects must pass scientific and budget scrutiny at each stage before progressing to the next stage and, ultimately, construction. This necessary scrutiny is intended to strengthen project proposals by prompting further refinements in project design and purposes where necessary. For example, the review led the Council to scale back ambitious salmon and steelhead hatchery programs in Idaho and Oregon and to reject a proposal by the Coeur d'Alene Tribe for a trout production facility. Nonetheless, the Council believes that rigorous evaluation is the key to successful project implementation.

During the last seven years, the Council's authority regarding project selection and recommendation has increased, as has the level of scientific scrutiny of projects proposed for

funding. Under the Northwest Power Act of 1980, Bonneville funds projects that implement the Council's Columbia River Basin Fish and Wildlife Program. In 1996, Congress amended the Power Act to provide for independent scientific review of the projects and require the Council to make recommendations on project funding priorities to Bonneville. The amendment directed the Council to appoint the 11-member Independent Scientific Review Panel for the purpose of reviewing projects proposed for funding and making recommendations about the projects to the Council.

The amendment directed the Council to make its recommendations to Bonneville after considering the Panel's recommendations. The Council also considers the recommendations of other entities, such as the Columbia Basin Fish and Wildlife Authority. To make this effort more manageable -- there are more than 200 projects in the Council's program and, typically, about twice that many are proposed for funding annually -- several years ago the Council divided the Columbia River Basin into 11 ecological provinces for the purpose of soliciting and reviewing project proposals. Rather than an annual basinwide project solicitation and review process, the Council chose to solicit, review and recommend projects in a three-year "rolling review" process, addressing about one-third of the basin each year. In addition to reducing the number of projects, both ongoing and new, that must be reviewed each year, the rolling review allows more time for the ISRP review, including visits by the scientists to project locations.

The rolling review process also allows for the integration of projects that implement the Council's program with projects that implement actions in the Reasonable and Prudent Alternatives of the 2000 Biological Opinions for threatened and endangered anadromous and resident fish species in the Columbia Basin. This integration helps avoid project redundancies and streamlines the overall recovery and enhancement process, both the ESA-related federal process and the Council's nonfederal process.

Program funding

On December 3, 2001, Bonneville Administrator Steve Wright committed to target budget levels of \$150 million in expenditure obligations (the assumption was that \$139 million actually would be spent) and \$36 million in capital projects to implement the Council's fish and wildlife program each year for the Fiscal Year 2002-2006 rate period. Subsequently, the Council recommended project funding for Fiscal Year 2002 consistent with Bonneville's financial commitment.

However, in 2002 Bonneville found itself in a financial crisis that resulted largely from purchases of wholesale electricity during the energy crisis of 2000/2001. In accordance with federal law, Bonneville must meet the full needs of its customers if requested to do so, and this required Bonneville to augment its power supply by about 3,000 megawatts. Bonneville buys that power on the wholesale market.

During the energy crisis, when wholesale prices jumped up to ten times normal, and higher, Bonneville spent nearly \$4 billion on power and signed long-term contracts for power supply that were low at the time but soon became higher as the market rates dropped. In response, Bonneville raised its rates and also sought to reduce its costs agencywide.

On December 10, 2002, seeking to reduce Bonneville's fish and wildlife expenditures, Administrator Steve Wright asked the Council to review the expense portion of the program budget to: 1) contain spending in Fiscal Year 2003 to \$139 million⁶, and; 2) create the opportunity to spend less than \$139 million per year in Fiscal Years 2004 through 2006. About a month earlier, Bonneville had announced it was changing its accounting procedures from an "obligations" basis, in which Bonneville commits, or obligates, funding in one fiscal year but may not actually spend it until the next year, to an "accruals" basis, in which funding is committed and spent, or accrued, in the same year. This sudden change effectively stranded some \$40 million in project funding that had been obligated in 2002.

Administrator Wright made clear that the Council's fish and wildlife program was not the cause of Bonneville's financial crisis, but that spending reductions were needed, nonetheless. He said that if the Council would not take "appropriate steps" to meet the cost-containment objective, Bonneville would review the fish and wildlife program and decide on spending reductions. He asked the Council to complete its review by February 22, 2003.

While Bonneville preferred to reprioritize all current and anticipated projects and terminate or defer those projects that were deemed low priority, the Council was concerned that such an approach would undermine the work the Council had completed collaboratively with tribes, Governors' offices, watershed groups, state and federal agencies and other interested parties over the previous three years through the ecological province review process (described above). The Council also was not convinced that immediate contract modifications and terminations would be necessary to meet the cost-containment goal. The Council wanted to meet

⁶ At that meeting, Bonneville representatives reiterated that they had developed estimates that predicted Bonneville would spend nearly \$180 million in Fiscal Year 2003.

the cost containment goal while also preserving the integrity of the decisions and priorities established by the region in the provincial reviews.

The Council, working with Bonneville's staff, responded with an extensive analysis of all projects in the program and those already recommended by the Council for funding in 2003 and future years. The Council delivered its analysis and recommendations to Bonneville on February 22, as requested. A cash-management approach outlined in the analysis assured Bonneville would not spend more than \$139 million in the fiscal year. This included funding for ongoing projects and for the \$40 million that was obligated in 2002 but not yet accrued.

In fact, no projects were terminated as the result of this recommendation. However, many projects and parts of projects were deferred, and the Council made clear in its February 22 analysis that "...this is not a reprioritization of the fish and wildlife program, and we are not changing the recommendations provided in the provincial reviews." The Council also commented that while it would abide by Bonneville's new accounting rules, the expectation was that full funding of the program -- the \$186 million annual target -- would be restored in 2004 and future years. Through 2003, the Council constantly monitored the accrual of Bonneville's expenditures and, in April, June and August, recommended within-year reallocations of available funds to some of the deferred projects.

Unfortunately, Bonneville was not able to fully implement the Council's recommended cash-management strategies. In order to effectively manage cash flow to keep total expenditures under \$139 million for the year, the Council's February recommendations included project spending caps for 2003. The Council's analysis was thorough and specific, not only addressing each project but also each contract -- more than 500 total contracts, as most projects have more than one contract for implementation. By the end of the fiscal year, Bonneville had imposed spending caps on only 68 contracts, and the estimated total expenditures for the year were higher than Bonneville anticipated.

While Bonneville's records showed that the agency spent \$140 million in Fiscal Year 2003, the Council, the Columbia Basin Fish and Wildlife Authority and other entities disputed between \$10 million and \$12 million of the total. For example, some of the money spent in 2003 was for work that occurred in 2002 -- Bonneville confirmed those expenditures but was unable to provide an accounting of them -- and some of the money Bonneville assigned to the expense category of its fish and wildlife budget the Council and others believed should be in the capital

category. As well, some projects continued to be fully funded despite Bonneville's financial crisis.

For Fiscal Year 2004, the Council recommended -- and Bonneville accepted -- a start-of-year budget of \$154 million. But this may have to be adjusted early in calendar year 2004 after Bonneville learns the actual amount of its Fiscal Year 2003 expenditures. Bonneville asked its contractors to submit their final billings for Fiscal Year 2003 by December 31. The Council made its \$154 million recommendation with the understanding that sufficient funds would be available to fund projects that had been deferred or delayed in 2003. However, if the actual Fiscal Year 2003 expenditures are higher than the estimated \$140 million, then the 2004 budget likely will have to be cut through spending reductions and deferrals.

The Council is working with Bonneville to develop short-term protocols to clarify spending rules for the remainder of the current rate case -- through Fiscal Year 2006. For the longer term, specifically for the 2007-2011 rate case, it is clear that spending protocols and administrative rules need to be developed and implemented consistently to ensure that the program is adequately funded and implemented.

Future fish and wildlife funding agreement

In July 2003, the Council authorized its staff to enter into discussions with Bonneville and other regional entities about a new long-term funding agreement for the fish and wildlife program. This responds directly to direction from the four Northwest Governors in their June recommendations regarding future fish and wildlife funding.

A previous six-year funding agreement, which was in the form of a Memorandum of Agreement among federal agencies with responsibilities for fish and wildlife recovery, mitigation and river operations, expired in 2001 and was not renewed. The Council believes a new long-term funding agreement should cover a broader set of planning and management issues than the previous agreement, consistent with the Governors' recommendation for greater funding stability. These issues include, for example: 1) funding to implement subbasin plans and also Biological Opinion requirements; 2) specific assurances for managing expenditures to an average annual budget with the ability to reserve funds for use in future years; 3) incorporation of current procedures for project selection, including independent scientific review; and 4) defined quarterly reporting requirements.

With the Governors' recommendation as the impetus, the Council, its staff and Bonneville developed funding processes and protocols to be used for fish and wildlife spending

for the remainder of the current Bonneville rate period. In October 2003, these parties agreed that accrued expenses would average \$139 million per year for the four years 2003 through 2006 and that total spending over the four years would not exceed \$556 million. The parties did not agree on processes and protocols for the capital portion of the budget, but continued to discuss the matter. Nor did the parties agree on how to carry over funding from the current rate period to the next, fiscal years 2007-2011. Bonneville prefers to manage its fish and wildlife expenditures under the agreed-upon protocols for a year or so before determining how to handle the transition to the next rate period.

The matter of a new memorandum of agreement on fish and wildlife spending remains under discussion. In October, Administrator Wright told the Council Bonneville is willing to work on a new funding agreement. The Council intends that a new funding agreement will establish the direct-funded program cost in the 2006-2011 rate case.

Mainstem amendments

The Council amended its fish and wildlife program in April 2003 with recommendations for operations of hydropower dams on the mainstem Columbia and Snake rivers and on major tributaries in the upper Columbia Basin, specifically Hungry Horse and Libby dams. The amendments, which include a broad range of recommended policies, operations and specific research needs in the future, took more than two years to develop and, when in draft form, were the subject of an intensive public review and comment process. The four Northwest Governors endorsed the amendments and recommended that federal dam and power agencies fully implement them “as soon as practicable.”

The amendments describe specific experiments and tests of alternative dam and river operations intended to protect all fish and wildlife that utilize mainstem rivers as habitat. The amendments are based on river conditions and dam operations in the 2000 Biological Opinions issued by NOAA Fisheries and the U.S. Fish and Wildlife Service regarding the impacts of hydropower operations on threatened and endangered fish species. Some of these tests and experiments may require temporary departures from current dam operations while remaining consistent with the Biological Opinions. These would take place primarily in the summer and fall. The NOAA Fisheries 2000 Biological Opinion mandates water releases from storage reservoirs in Montana -- behind Hungry Horse and Libby dams -- in July and August to boost flows in the lower Columbia River to help ESA-listed juvenile salmon and steelhead migrate to the ocean. The Council suggests an experiment to release a slightly smaller volume of water

over a longer period of time -- July through September -- on the grounds that a longer, steadier release would provide greater protection to upriver fish and wildlife in the rivers and reservoirs than the rapid flow fluctuations under the Biological Opinion, and would continue to benefit salmon and steelhead downstream. The Biological Opinion has enough flexibility to allow this experiment. The Council worked with federal agencies in the fall of 2003 to seek implementation of the experiments in the summer of 2004.

In addition, the amended fish and wildlife program describes dam-operation tests and experiments to:

- Determine the relationship between fish survival and various levels of water spills at dams;
- Assess new spill technologies such as removable spillway weirs;
- Determine optimum fish survival through turbines at dams;
- Evaluate the fish-survival benefits of augmenting flows;
- Measure the biological effects of steady outflows from Libby and Hungry Horse reservoirs in Montana;
- Identify the effects of shifting summer flows to later in the summer;
- Assess impacts of predation and harvest on ESA-listed species in the mainstem rivers; and
- Address other scientific uncertainties.

While the Council recommended the summer spill tests to implement the measures, the federal dam-operating agencies determined that would not be possible until the summer of 2004. An ad-hoc group comprising representatives of federal agencies, the Columbia Basin Fish and Wildlife Authority and the Council continued discussions into the fall on four options: 1) a status-quo operation that would not disrupt current research activities; 2) an operation that would reduce spill and gather inriver fish survival estimates; 3) an operation that would follow Biological Opinion guidelines and establish baseline fish-survival estimates, with the option of offsetting mitigation; and 4) an evaluation of various spill levels in combination with other fish-passage measures, such as barge transportation of fish. The ad-hoc group also is discussing the feasibility of a systemwide spill test, including the costs of such a test and data gathering that would occur, and the flexibility of the biological opinion to permit operational changes.

Artificial Production Review and Evaluation

In 2003, the Council completed the first-ever comprehensive review of fish hatcheries in the Columbia River Basin, the Artificial Production Review and Evaluation (APRE). The APRE resulted from a 1997 request from Congress that the Council and the Independent Scientific Advisory Board, a panel of 11 scientists who advise the Council and NOAA Fisheries, conduct a thorough review of all federally funded artificial production programs in the Columbia River Basin. Congress directed the Council to recommend a coordinated policy for future operation of artificial production programs and to provide recommendations for how to obtain such a policy.

The APRE resulted from the initial Artificial Production Review, which was completed by the Council in 1999. That Review included principles for future hatchery operations and also called for a more detailed evaluation of the purposes and objectives of each artificial production facility in the basin. The Council reasoned that in order to effectively apply the principles, decisionmakers first should have a better understanding of how much fish production is occurring, where the fish are released, how many fish return as adults, and so on. The APRE provides that information.

Congress directed the Council to review all federally funded hatcheries. By definition, that includes hatcheries funded through the Council's fish and wildlife program with Bonneville ratepayer money and also hatcheries that are funded directly with Congressional appropriations. Hatcheries have an important role in the recovery of threatened and endangered fish species. The federal Basinwide Salmon Recovery Strategy contains two primary hatchery initiatives. The first is to reform all existing production and mitigation hatcheries to eliminate or minimize their harm to wild fish. The second is to implement "safety net" projects using various artificial production techniques such as supplementation and captive broodstock programs on an interim basis to avoid extinction while other recovery actions take effect. The APRE provides important information to support these initiatives.

The APRE was conducted by a committee of fish production experts assembled by the Council, with participation by fish and wildlife managers. A total of 227 hatchery programs were identified. According to the review, these facilities release more than 235 million juvenile fish annually; 88 percent are salmon or steelhead. Of these, nearly half are released downstream of Bonneville Dam for the purpose of providing harvest opportunities in the river and the ocean, and most of those are fall chinook salmon.

The focus on fall chinook production means that most Columbia River salmon and steelhead return from the ocean in the late summer and fall months. As a result, inriver harvest seasons are necessarily compressed into the same timeframe. This means there are fewer opportunities to catch salmon during the spring and summer because there are fewer fish available in those seasons, according to the review. At the same time, many of the fall chinook released from Columbia Basin hatcheries are intended for harvest in the ocean off British Columbia and Alaska, consistent with United States obligations under the 1985 Pacific Salmon Treaty.

The APRE process, which also produced draft Hatchery Genetic Management Plans for all hatcheries, also concludes that the purposes of many artificial programs in the basin currently are unclear. While many artificial production programs were built to mitigate the impact of dams or to produce fish for harvest, their role today is less certain. The Review concludes that hatcheries probably are adversely affecting naturally spawning populations of fish. For many fish production programs, it was not clear whether and to what extent hatchery fish are spawning with wild fish.

The Council is seeking public comments on the APRE to assist in preparing an issue paper on hatchery reforms. The Council then plans to make recommendations to Congress in early 2004 on future hatchery operations to ensure that hatchery management plans are consistent with state, federal and tribal goals for harvest and fish production, and also consistent with the ability of the rivers to support fish production. The APRE report is posted on the Council's website.

Fish and wildlife data management

NOAA Fisheries and the Council believe it is necessary to develop a regional fish data network, taking advantage of existing databases for improved data management and data sharing. The data will be useful for subbasin planning, salmonid recovery under the federal biological opinions, and for other purposes. Working with a private contractor, in 2003 the Council and NOAA Fisheries developed a draft memorandum of agreement regarding data collection and sharing and, late in the fiscal year, accepted comments on it from fish and wildlife agencies and other entities with interests in data management. A draft administrative framework also was developed. A workplan for implementing the regional data network is being developed.

The goal of this work, according to an agreement between NOAA Fisheries and the Council is to “materially and demonstrably improve the quality, quantity and availability of data and related information” in the Columbia River Basin.

Long-term plan for fish and wildlife research

The Council is leading an effort to improve long-term research, monitoring and evaluation of fish and wildlife projects and their effectiveness. This will be valuable for implementation of the Council’s program and also for implementing the 2000 Biological Opinions.

As noted earlier in this report, in June 2003 the Northwest Governors directed the Council to convene state, federal and tribal managers to develop a monitoring system and research plan for fish and wildlife project implementation, including an equitable plan for funding. The Governors asked for a draft by December 31, 2003, and the Council will meet that deadline.

Developing a research plan for the entire Columbia Basin is a substantial undertaking, given the complexity of the fish and wildlife mitigation and recovery effort, which involves state and federal fish and wildlife agencies, tribes, and other entities. The draft plan addresses research efforts for fish (anadromous and resident) and wildlife, consistent with the requirements of the Council’s fish and wildlife program. A primary goal of the research plan is to reduce management uncertainty by increasing scientifically based knowledge. In brief, the plan identifies key research uncertainties, identifies major research topics, and recommends priorities for funding. More specifically, it calls for:

1. Identification of key uncertainties and research recommendations;
2. Prioritization of major research topics;
3. Accountability for the annual expenditures of research funds;
4. Input from independent scientific review, fish and wildlife agencies and tribes, independent scientists and other interested parties in the region;
5. Monitoring, evaluation, and the application of results;
6. Coordination with the research elements of the mainstem plan;
7. Coordination with the research elements of the subbasin plans; and,
8. Making information from the fish and wildlife program readily available.

The research plan is an important tool for managing the fish and wildlife program because it will inform Council decision-making, facilitate project selection, and provide a basis for re-directing research in the future. The plan also describes the Council's basic principles for the uniform and consistent selection, implementation, completion, and processing of research conducted under its program.

Meanwhile, the Council and NOAA Fisheries recognized the need for a better-coordinated system for collecting, storing and retrieving fish and wildlife data and began working to improve the system in 2002. In April of that year, the Council and NOAA Fisheries signed a Memorandum of Agreement for Cooperative Information System Development for the Columbia Basin. According to the agreement, the two agencies will cooperatively plan and develop an information system "...believing that the region is best served by a unified approach to meeting all data and information needs ... to materially and demonstrably improve the quality, quantity and availability of data and related information in the Columbia Basin..." The Council and NOAA Fisheries hired a consulting firm with expertise in regional information system development to survey the information requirements of all relevant stakeholders in the region and identify their existing information system capabilities and recommend steps to produce a cooperative information management system for the region.

In May 2003, following interviews with regional fish and wildlife agencies, tribes, university scientists and others, the consulting firm delivered its report and recommendations, which the Council made available for public comment. The report described problems with finding and accessing relevant information sources, problems with incomplete or inaccurate information and problems with data collected in incompatible geographic scales and units. Because there is no single integrated information system in the basin, the report recommended creation of such a system, tentatively named the Columbia Basin Cooperative Information System. The next steps are to establish an administrative framework for the system, develop a new memorandum of agreement among the entities that would participate in it, and determine how to fund the system.

Scientific Review of Corps of Engineers' anadromous fish passage program

The Independent Scientific Review Panel (ISRP), which reviews all projects proposed for funding by Bonneville through the Council's program, completed its first comprehensive evaluation this year of the U.S. Army Corps of Engineers' Anadromous Fish Evaluation

Program. Funding for the program, which is appropriated by Congress, amounts to \$25 million to \$30 million per year.

Congress directed the Council in 1997 to create the Independent Scientific Review Panel to ensure that all projects funded by Bonneville to implement the Council's program are scientifically sound. In 1998, Congress extended the ISRP's annual review to include fish and wildlife mitigation projects whose costs are reimbursed by Bonneville. These programs include dam modifications and also the operations and maintenance costs of Congressionally funded facilities such as the U.S. Fish and Wildlife Service's Lower Snake River Compensation Plan and the Bureau of Reclamation's Leavenworth Hatchery. Since 1998, most of these programs are funded directly by Bonneville and no longer require congressional appropriations. The ISRP is to use the same standards in reviewing and recommending the direct-funded and reimbursable projects and programs as it does in reviewing and recommending projects that implement the Council's fish and wildlife program.

In June 2003, the Council requested the ISRP to focus its Fiscal Year 2004 review on the Anadromous Fish Evaluation Program. This program, primarily research, is intended to improve fish passage at federal dams in the Columbia River Basin. In recent years, the ISRP reviewed parts of the Corps program, but this is the first year a full review of the research program was completed. The review is in two parts. In October 2003, the ISRP completed its review of the "Fiscal Year 2004 Pre-Proposals," which include 52 research proposals that were being considered for implementation during the 2004 migration season for salmon and steelhead. According to the review, its purpose is to "aid the Corps in selecting among pre-proposals and assist the project sponsors in drafting final proposals." A second ISRP report, planned for completion in mid-January 2004, will "provide programmatic comments and recommendations on the Anadromous Fish Evaluation Program and project selection process as a whole," according to the ISRP.

The initial review was not as thorough as it could have been, the ISRP reported, because "the pre-proposals did not provide enough information for a complete technical review." The proposals include evaluations of Columbia River estuary and plume survival and habitat utilization, juvenile fish survival at mainstem dams, adult fish survival, juvenile fish transportation, surface bypass technology, bull trout, sturgeon and avian predation. The Corps planned to decide on the 2004 research projects by December or January after it is clear how

much money is available. The ISRP intends to follow the Corps decision process as the pre-proposal list is narrowed and statements of work are developed for the selected projects.

Public Affairs Activities

One of the Council's primary tasks is to fulfill the directive of the Northwest Power Act to inform and involve Northwest citizens regarding regional energy and fish and wildlife issues and the Council's activities. Section 2(3) states a purpose of the Act is "to provide for the participation and consultation of the Pacific Northwest states, local governments, consumers, customers, users of the Columbia River System (including federal and state fish and wildlife agencies and appropriate Indian tribes) and the public at large within the region" in the Northwest's planning for electrical power and protection of fish and wildlife resources. Section 4(g)(1) of the Act requires the Council to develop "comprehensive programs" to ensure public involvement and to "inform the Pacific Northwest public of major regional power issues."

To involve the public, the Council meets monthly at different locations around the Columbia River Basin. All meetings are open to the public, and there is an opportunity for public comment on each agenda item, as well as periodic public hearings on major Council initiatives. The Public Affairs Division arranges consultations and public hearings separate from the regular Council meetings to discuss and explain key issues and also gathers public comments at these meetings and through mail, e-mail and telephone contacts. To inform the public, the Council produces a quarterly newsletter as well as special informational materials, media briefings and news releases. The Council also regularly updates its website (www.nwcouncil.org) and uses other approaches to inform the public about fish, wildlife and energy issues.

In 2003, the Public Affairs Division produced the "Columbia River Basin Field Guide," which includes facts and figures about the Columbia River and the Council's fish and wildlife program. The Public Affairs Division also produced the second annual report to the Northwest Governors on Bonneville's fish and wildlife expenditures and a guide to major dams of the Columbia River Basin.

As noted earlier in this report, the Council joined with Bonneville late in the fiscal year to conduct a series of meetings with Bonneville customers and other interested parties on the future role of Bonneville in regional power supply. The Public Affairs Division helped to facilitate those meetings.

The Public Affairs Division also takes the lead in staffing the Council's ongoing relations with the Columbia Basin Trust, the Council's closest counterpart agency in British Columbia. The Trust and the Council formalized a liaison relationship in 2000, designating the vice chairs

of each agency as official liaisons. The Council and Trust exchange visits of the vice chairs at least once a year for the purpose of reporting on current activities and discussing issues of mutual interest. In 2003, Council Vice Chair Tom Karier, accompanied by the chairs of the Council's Power and Fish and Wildlife Committees, visited Trust officials in July. This meeting was followed by a visit of the Trust Chair and Executive Director to a Council meeting in October.

The Trust and Council have agreed to work together to begin identifying issues that could be addressed by the United States and Canada in negotiating a new Columbia River Treaty. Neither the Trust nor the Council is designated as an official entity for the purpose of treaty negotiations, but both agencies have mandates to conduct fish, wildlife and energy planning in the Columbia River Basin, and to involve citizens in that work. This will be a long-term process, as the current treaty does not expire until 2024, and the two countries are required to give notice of their intention to pursue a new treaty by 2014.

Council Budget

Fiscal Year 2004 budget

The Northwest Power Act requires the Bonneville Power Administration to fund the Council with a portion of its firm power sales. The Council's Fiscal Year 2004 revised budget of \$8,499,000 is \$6,000 higher (0.08 percent) than the Fiscal Year 2003 budget of \$8,493,000. The proposed Fiscal Year 2005 budget of \$8,689,000 is \$190,000 higher (2.2 percent) than the revised Fiscal Year 2004 budget, reflecting inflationary increases in various costs.

The Council has been diligent in controlling its costs. The Council's budget for the six-year period between Fiscal Year 1995 and Fiscal Year 2001 decreased approximately 23 percent. Since Fiscal Year 1996 (six years), the actual and projected cumulative annual inflation for the Portland area is approximately 22.5 percent. In 1997, the Council entered into a budget limitation agreement with Bonneville that resulted in approximately \$5 million of savings through Fiscal Year 2001. Actions taken to accomplish these savings included reducing the workforce, eliminating vacant FTEs, reducing travel costs, slashing contract funding, cutting administrative costs and curtailing lower-priority activities.

For the current Bonneville rate period, which expires in 2006, the Council again made a commitment to exercise fiscal restraint in developing its budget. In light of Bonneville's financial condition in 2002 and 2003, the Council agreed to submit current-level-of-service budgets capped at 2 percent annual growth. This will save another \$1.1 million over the rate period. Additionally, the Council froze the number of FTEs in its budget while continuing to undertake additional work and responsibilities in the region, particularly in fish and wildlife recovery efforts.

The current and projected future budgets are explained in detail in a report (Document 2003-13) posted on the Council's website.

Council funding instability

While the Council has accepted an enhanced role and additional responsibilities in recent years, particularly for fish and wildlife recovery activities, the capability of the Council to carry out these additional responsibilities has been diminished seriously since the time the Power Act was enacted. The primary factor that undermines the stability of Council funding is Bonneville's

forecast of firm power sales. Forecasted firm power sales are the basic element in the formula provided in the Act for calculating the Council's funding base.

The Act envisioned that Bonneville's firm power sales would increase as utilities were allowed to place additional loads on Bonneville. This has not been the case during the last 20 years, however, and prospects for increased power sales in the future are questionable. Indeed, the Joint Customer Proposal for Bonneville's future role in power sales, discussed elsewhere in this report, would mostly limit Bonneville's power sales to the output of the Federal Columbia River Power System and reduce Bonneville's role in meeting the demand of its customers beyond the capability of the federal system. It should be noted that the Council generally supports this proposal, even though it would mean reduced firm power sales and a corresponding reduction in the Council's budget if the current budget formulation rules remain in effect.

Currently, Bonneville markets the output of the Federal Columbia River Power System and augments that power supply with market purchases in order to meet its customers' load. The Act did not anticipate that electricity one day would be a wholesale commodity, or that its price would fluctuate wildly with supply and demand. Bonneville's firm power sales can fluctuate dramatically depending on the market volatility of wholesale electricity prices, as was made clear during the energy crisis of 2000/2001.

If Bonneville's firm power sales had increased as envisioned in the Act, then the Council's funding base would have had the flexibility to adjust to the inflationary cost impacts of doing business. Instead, the Council has had to absorb the increased costs associated with its additional responsibilities by reducing its capability to conduct independent planning and analysis activities. Bonneville, on the other hand, can cover inflationary cost impacts by adjusting its rates to meet its revenue requirements.

During each of the past two rate periods, the Council has been compelled to enter into budget limitation agreements with Bonneville in order to assure some degree of funding stability. These agreements, however, have not been sufficient to address nor restore the Council's planning capabilities to prior levels.

More Information

For additional information about the Northwest Power and Conservation Council's activities, budget, meetings, comment deadlines, policies or bylaws, call 1-800-452-5161 or visit our web site at <http://www.nwcouncil.org>. Copies of our publications are available at the web site or by calling the Council. All Council publications are free.

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Comments of the Bonneville Power Administration

This section is reserved for a letter from Bonneville, which will be inserted into the final version of the report.

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