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Ed Bartlett
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October 7, 2002

MEMORANDUM

TO: Council Members

FROM: Brian Allee and Lynn Palensky

SUBJECT: Deschutes Subbasin Planning Proposed Workplan Approval

Proposed Action

Staff recommends that the Council authorize the Executive Director to negotiate a contract with the Deschutes Resources Conservancy for the completion of the Deschutes subbasin plan. The total projected cost of completing this work will not exceed \$253,425.

Background

The Deschutes Resources Conservancy (DRC) is a non-profit organization that will be the contracting agent for the development of the Deschutes subbasin plan. The DRC is working under the guidance of the Deschutes Coordinating Group (DCG), a special ad hoc group organized in June 2002 under a Memorandum of Understanding to develop a comprehensive watershed restoration plan for the Deschutes Basin. The DCG membership includes watershed councils, cities, counties, irrigation districts, state, tribal and federal governments. The members (over 20 signatories), purpose and organization of the DCG can be found in the attached MOU. The Confederated Tribes of the Warm Springs Reservation express support for this effort through a separate letter also attached. Members and participants of the DCG have spent over a year preparing for subbasin planning. The final plan will be submitted to the Council for adoption into the Program and to the Oregon Watershed Enhancement Board for consideration and adoption by OWEB under state statute.

Proposed Work Plan and Budget

The workplan proposes a 14-month timeframe starting in December 2002 and ending in February of 2004. The workplan reflects the format and approach found in the Council's Technical Guide. Additional technical assistance and products will be provided to the DRC by the Level II technical team (TOAST) under separate contract(s). The funding allocated for this project has been approved by the Oregon Subbasin Planning Coordination Group and will not exceed \$253,425.00 in FY03/04.

October 9, 2002

Lynn Palensky
Subbasin Planning Coordinator, NWPPC
851 SW Sixth Avenue, Suite 1100
Portland, OR 97204-1348

The Deschutes Resources Conservancy, as agent for the Deschutes Coordinating Group, has submitted a work plan for subbasin planning in the Deschutes Subbasin to the Oregon Subbasin Planning Coordination (Level II) Group (OCG) for review before forwarding it to the Northwest Power Planning Council.

The attached work plan, Memorandum of Understanding and letter of support from the Confederated Tribes of the Warm Springs Reservation have been reviewed and approved by both the Oregon Subbasin Planning Project Manager and the OCG. The Project Manager and the OCG join the Conservancy in requesting approval of this work plan.

We appreciate prompt attention by the Council and look forward to working together to complete the subbasin planning process in the Deschutes Subbasin.

Sincerely,

Eric Bloch
Chair, Oregon Coordination Group
Oregon Member, Northwest Power Planning Council

Attachments

[x:\packets\2002_10\item 2 bloch letter.doc](#)

Deschutes Coordinating Group
Deschutes Subbasin Plan Workplan

2000 Columbia River Basin Fish and Wildlife Program

Subbasin Planning
Deschutes Subbasin
Request for Funding

September 2002 revised October 7, 2002

APPLICATION CERTIFICATION AND TRANSMITTAL

To: Northwest Power Planning Council
851 SW Sixth Avenue, Suite 1100
Portland, OR 97204
Attn: Contracts Officer

Through: Oregon Subbasin Planning Coordination Group

Contact Person: William Blosser

From: Deschutes Resources Conservancy, as agent for the Deschutes Coordinating Group
P.O. Box 1560
700 N.W. Hill St.
Bend, Oregon 97709
Contact Person: Gail L. Achterman, Executive Director

Request:

Through the Oregon Subbasin Planning Coordination Group identified above, the Deschutes Resources Conservancy, as agent for the the Deschutes Coordinating Group, is requesting contract financial assistance from the Northwest Power Planning Council for the development of the subbasin plan described below and in accordance with such funding conditions as may be required by the Council and the Bonneville Power Administration. This application is prepared with full knowledge and understanding of the Council's practices and procedures described in the attachments 1-3 of the request for funding materials provided.

Project Name: Deschutes Subbasin Plan
Subbasin: Deschutes
Province: Columbia Plateau

Certification:

I certify that to the best of my knowledge, the information provided in this application is true and correct and that the financial assistance requested will be utilized only for the purpose of carrying out the activities described in the attached statement of work.

Authorized Representative _____
Signature Date

Printed Name and Title: Gail L. Achterman, Executive Director, Deschutes Resources Conservancy

APPLICANT/ORGANIZATION INFORMATION

Province name: Columbia Plateau

Subbasin name: Deschutes

Organization name: Deschutes Resources Conservancy,
as agent for the Deschutes Coordinating Group.

Type of Organization: private non-profit
corporation

Address: P.O. Box 1560, 700 N.W. Hill St.

City/Town: Bend

State, Zip: Oregon 97709

Telephone #541-382-4077

Email address: deschutesrc.org

FAX #541-382-4078

Describe organization purpose and legal status:

The Deschutes Resources Conservancy ("DRC") is an Oregon non-profit corporation dedicated to streamflow restoration and water quality improvement in the Deschutes Basin. It is authorized to receive federal funds and technical assistance under Public Law 106-270. The DRC is acting as agent for the Deschutes Coordinating Group, a special ad hoc group organized in June 2002 to develop a watershed restoration plan for the Deschutes Basin. The Deschutes Coordinating Group membership, purpose and organization is more fully described in the Memorandum of Understanding attached as Exhibit A.

Contract contact information:

Project management coordinator:

Name: Gail L. Achterman

Mailing address: P.O. Box 1560

City/Town, State, Zip: Bend, Oregon 97709

Email address: gailachterman@deschutesrc.org

Telephone #541-480-0694

Contract administration representative:

Name: Scott McCaulou

Mailing address: Same as above

City/Town, State, Zip: Same as above

Email address: scottmccaulou@deschutesrc.org

Telephone #541-382-0020

SUMMARY DESCRIPTION OF PROJECT

Overall Approach

Purpose. The Deschutes Coordinating Group (“DCG”) was organized to establish a locally led process for cooperating local stakeholders, private citizens, public organizations, local, tribal, state and federal governments to develop a comprehensive watershed restoration plan for the Deschutes Basin in Central Oregon. The plan will be submitted to the Northwest Power Planning Council for (“NWPPC”) adoption as a subbasin plan under the Council’s Fish and Wildlife Program following the subbasin planning guidance adopted by the NWPPC. The plan will also be submitted to the Oregon Watershed Enhancement Board (“OWEB”) for consideration and adoption by OWEB as the goals and priorities for watershed restoration in the Deschutes Basin under ORS 541.371(1)(c).

The overall purpose of the planning effort goes beyond the requirements of the NWPPC subbasin planning process. The DCG seeks to develop a watershed restoration plan that identifies and prioritizes actions needed to:

- Protect and enhance streamflows to meet water quality standards, instream water rights, fish and wildlife habitat objectives and existing water rights;
- Maintain the resource land base in the Basin, consistent with acknowledged comprehensive land use plans, and the economic viability of the resource-based economy in the Basin;
- Meet municipal and industrial water needs over the next 50 years; and
- Promote sustainability and conservation consistent with the custom, culture and quality of life in the Basin.

Organization. The DCG includes representatives from basin organizations, watershed councils, cities, counties, irrigation districts, state agencies and federal land and resource management agencies. To date over 20 organizations have signed the MOU. Signatures are expected soon from state and federal agencies. The Confederated Tribes of Warm Springs have chosen not to sign the Memorandum of Understanding, but they are committed to participating actively in the planning process. See letter attached as Exhibit B. The organizational structure of the DCG is explained in detail in Exhibit A. All meetings of the DCG will be open to the public and participation by others interested in the subbasin planning effort will be encouraged.

The DRC will serve as fiscal agent for the DCG managing the contract with the NWPPC/BPA and contracting for other services, as required, to prepare the subbasin plan. The DRC has the authority to contract with the NWPPC and has extensive experience administering grant programs and managing projects. Further information on

the DRC's experience and capabilities is provided on its website, www.deschutesrc.org. The DRC will contract with an experienced technical writer to work as principal author of the plan. The writer will work closely with the technical teams and the DCG to compile, edit and write various sections of the draft assessment, inventory, management plan and subbasin plan.

The DRC will contract with Wy'East Resource Conservation & Development ("Wy'East") to handle all outreach and communication work, including meetings of the DCG. Wy'East's experience and capabilities are described on its website, www.wyeastrcd.org. Patricia Gainsforth, a member of the Wy'East board of directors, has been selected as DCG chair. DCG meetings will be held monthly throughout the planning process.

Coordination. The organizational structure of the DCG assures coordination with all of the groups actively working on watershed restoration in the Deschutes Basin. The participants are committed to building on all of the watershed assessment and planning work that has already been done. The individuals serving on the DCG will assure that their organizations receive regular updates on the planning process so that as many people as possible track developments as they occur. They will take the lead in reviewing the subbasin assessment for accuracy, developing the vision and biological objectives and prioritizing action strategies.

Technical Assistance. The DCG will establish technical teams as needed to complete the various products required in the subbasin plan. It is anticipated that the DRC will contract with the Oregon Department of Fish and Wildlife ("ODFW") and the Confederated Tribes of Warm Springs ("CTWS") for assistance on: (1) fish and wildlife matters; and (2) update of the EDT analysis prepared on the Deschutes Basin in conjunction with relicensing of the Pelton/Round Butte hydroelectric project. We also anticipate contracting with Mobrand Biometrics, Inc. ("Mobrand") and the Northwest Habitat Institute to assist with the EDT analysis update and a workshop on ecological relationships. The U.S. Forest Service and the Bureau of Land Management will provide assistance on their land and resource management plans and watershed assessments, hydrology and fish and wildlife biology. Assistance on resource inventories on private lands will be provided by the Natural Resource Conservation Service. Assistance from state resources agencies will be provided through the Oregon Subbasin Planning Coordination Group and local agency representatives participating in the DCG in accordance with the Oregon Specific Guidance for subbasin planning. Cities and counties will provide information on land use and zoning and on municipal water supply needs.

Related Planning Efforts

Extensive watershed analysis and planning has already been done in the Deschutes Basin. These existing assessments and plans will be used to prepare the assessment, particularly the Subbasin Summary on the Deschutes prepared by the Oregon Department of Fish and Wildlife for the NWPPC in 2001 and the extensive reports prepared by the Confederated Tribes of Warm Springs and Portland General Electric on

relicensing of the Pelton/Round Butte hydroelectric project. Other key documents include the watershed assessments prepared by the watershed councils, soil and water conservation district geographic priority areas, federal land management agency land and resource management plans (including the data in the Interior Columbia Basin Ecosystem Management Project), irrigation district water conservation plans, the Bureau of Reclamation Special Report, "Upper Deschutes Water Conservation Study" (1997), ODFW fish management plans and local zoning regulations and land use plans.

The DCG seeks to coordinate this planning process with several other on-going planning efforts. Specifically, the Oregon Department of Environmental Quality is currently preparing total maximum daily load allocations for rivers and streams in much of the Basin. They are scheduled for completion between now and 2007. See www.deq.state.or.us/wq/303list/TMDLs. The Oregon Department of Agriculture is preparing agricultural water quality management area plans. The plan for the Lower Deschutes was adopted in 2001 and the plan for the Middle Deschutes is now under review. The planning process is just starting for the Crooked River subbasin. The subbasin plan should integrate the Total Maximum Daily Load ("TMDL") implementation plans and the area water quality management plans.

The DCG also seeks to have the subbasin plan serve as the foundation for the recovery plans now being developed by the National Marine Fisheries Service for listed species of anadromous fish in the subbasin and by the U.S. Fish and Wildlife Service for bull trout.

Timeframe

Members of the DCG have spent over a year getting organized for subbasin planning. This has included meetings with cities, counties, watershed councils, soil and water conservation districts, irrigation districts and others to explain the subbasin planning process. Representatives of the group have also attended many meetings with NWPPC staff and the Oregon Subbasin Planning Coordination Group. Based upon contract award on or before December 15, 2002 and a 14-month planning process, the timeline and milestones are as follows:

March 2003	Complete subbasin assessment, including species characterization and status, environmental conditions, ecological relationships, and limiting factors.
April 2003	Complete inventory of existing activities.
July 2003	Complete draft vision and biological objectives.
December 2003	Complete draft management plan.
February 2004	Submit draft management plan to NWPPC.

Public Participation and Involvement

Broad participation in the subbasin planning process is already assured through the formation of the DCG. It is broadly representative of basin citizens and their various interests in the watershed. The DCG composition assures visibility, prestige and support for the subbasin planning effort within the Basin. Wy'East RC&D is working with other participants to develop a comprehensive outreach plan, building on the regular open public meetings of the DCG. The goal is to assure that all of those interested in watershed restoration know about the planning process and have an opportunity to participate and comment.

All meetings will be publicly noticed, a website has been set up specifically for the subbasin planning effort, meetings will be scheduled to brief local elected officials and special public meetings/hearings will be held at key stages of the planning process to obtain public input and comments. A more detailed description of the planned public involvement activities is included in the statement of work and budget.

Involvement of the Federal land management agencies, predominantly the USDA Forest Service and the USDI Bureau of Land Management is critical for ensuring a successful planning effort since nearly 50 percent of the land in the Basin is federally owned and managed. Participation includes providing technical support and data as well as providing information to insure subbasin plan compatibility with the land use management plans for the basin. This collaboration will avoid duplication of planning efforts as well as promote integration and coordination in project planning.

STATEMENT OF WORK

The DCG will prepare the subbasin plan using the NWPPC Technical Guide for Subbasin Planners and the Oregon Specific Guidance. The basic approach will be for the writer to prepare chapters of the plan for review by the DCG. Materials provided by the Oregon Subbasin Coordinating Group will be integrated into appropriate chapters. If the DCG concludes that additional technical work is needed in order to prepare particular chapters, a technical team appropriate to the issue will be formed and additional technical assistance will be obtained. State agencies may provide technical assistance, but only to the extent that they have resources available to do so. The assessment will be based on existing data and plans. The DCG is committed to focusing its efforts on development of the management plan and strategies. Public outreach and involvement will be built in at every stage of the planning process.

Startup

The planning process has already begun in the Deschutes Basin through the development of the Memorandum of Understanding forming the DCG and the extensive meetings among all participants to identify an agreed upon purpose and approach to the planning process. The process will proceed upon signing of a contract with the NWPPC/BPA. At startup the Project Manager will set up detailed project management tracking and accounting systems.

The DRC will contract with Wy'East RC&D for outreach and coordination services and with Barbara Taylor, the writer/planner who will take the lead in drafting the plan. The DRC will develop appropriate project management systems to track and manage the planning process and associated contracts. The DRC will contract with ODFW and the CTWS for fish and wildlife technical support services.

The DCG will announce the beginning of the planning process and solicit participation from other qualified entities in the DCG. The Outreach Coordinator will meet with others who may be interested in the planning process and discuss how they can participate. The Outreach Coordinator will also meet with key public officials and editorial boards throughout the Basin to make them aware of the planning process and solicit their issues and concerns. A website has been established for use during the planning process, www.wyestred.org/dcg, and it will be publicized during the startup period.

Assessment

Subbasin Overview. The writer/planner will work with the DCG to identify and gather the existing plans, watershed assessments and reports on the Deschutes Basin. Working with these documents and the Subbasin Summary, the writer will prepare the subbasin description for review by the DCG. The overview will describe the geography, land ownership, biological and environmental situation in the Basin. Information needed

on how the Deschutes Basin fits into the overall regional context will be provided by the Technical Outreach Assistance and Support Team (“TOAST”) and included in the overview. If this information is not available by October 30, 2002, it will be added later.

The overview will be completed by the writer between December 15, 2002 and January 30, 2003 and reviewed in sections by the DCG at its meeting in February, 2003.

Species Characterization and Status. ODFW and CTWS will identify the focal species based upon ESA status, state sensitive species lists, cultural importance and other factors. The list will be reviewed by a technical review team from federal land management agencies and others, before review by the DCG. Based upon the list of focal species, the writer will work with ODFW and CTWS to delineate and characterize each species and the conditions needed to assure their long-term sustainability in the Basin. This work will utilize input from the TOAST to assure consistency. NMFS and/or the NWPPC will provide needed information on out-of-subbasin effects and assumptions for each focal species. The USFWS will be contacted to obtain information on focal species as well and NOAA Fisheries.

This step will be completed by February 1, 2003 and will be reviewed by the DCG initially at its October meeting with detailed review at the February 2003 meeting. The ODFW and CTWS biologists will spend 2 weeks each on this step. The writer will spend one week on this step.

Environmental Conditions. The writer will develop the description of existing conditions based upon the Subbasin Summary and existing plans and watershed assessments. This description will be reviewed by the DCG to assure that it accurately provides a benchmark of the present situation. The TOAST will provide database structures, data input, retrieval tools and standard report templates to use in the plan. The TOAST will also provide coarse screen EDT data sets. CTWS will work with TOAST and Mobrand to update the EDT analysis done for relicensing of the Pelton/Round Butte Project.

The writer’s time on this section is included in the 6 weeks of time allocated to the overview. The description of existing conditions will be completed by January 31, 2003. The CTWS biologist will spend 2 weeks working with Mobrand to update the EDT analysis focusing on defining reaches and inserting as much information as possible into the Level II parameters for each reach.

Ecological Relationships. A 5-day workshop will be held with Mobrand, Northwest Habitat Institute and a technical team from ODFW, CTWS, other state and federal agencies and technical experts to analyze the key interspecies relationship and the key functional relationships, processes and functions of the focal species. The writer will then work with the TOAST, ODFW and CTWS to prepare a written assessment of habitat population interactions for the focal species. This section will then be reviewed by the full DCG.

The workshop will take the ODFW biologist and the CTWS biologist 1 week each to prepare for. The workshop would be held in late January or early February 2002. The ODFW/CTWS biologists would lead and coordinate the workshop. They would work with Mobrand, the Northwest Habitat Institute and the TOAST for another week to complete the assessment. The writer would spend another week integrating this assessment into the overall assessment.

Limiting Factors and Conditions. Based upon the analysis of environmental conditions and analysis of ecological relationships, the Technical Team participating in the workshop will identify the limiting factors and conditions that inhibit the ecological processes needed for sustainable populations of the focal species. The description and discussion of limiting factors and conditions will be reviewed by the DCG and documented, including data sources.

The analysis of limiting factors and conditions would be integrated with work on the ecological relationships. Both the description of ecological relationships and limiting factors would be completed by February 15, 2003 and presented to the DCG at its March 2003 meeting.

Interpretation and Synthesis. All of the information and analysis above will be used to develop alternatives for the management plan. Key assumptions will be stated and the key factors that impede optimal ecological function and biological performance for the focal species will be identified. Near term opportunities will be identified based upon areas that are high priorities for protection, needed reference sites and high priority areas for restoration. Prudent interim strategies and actions will be described and prioritized. This work will be done by the Technical Team with assistance from the TOAST. The ODFW/CTWS biologists will spend 2 weeks each on this effort. The writer will spend one week to present it in a form suitable for inclusion in the Subbasin Plan so that it can be reviewed by the DCG.

The draft assessment will be completed by the end of March 2003.

Inventory

While the assessment is being done, the DRC will work with the DCG to prepare the inventory of existing activities. Current management strategies and restoration projects that are complete or on-going will be briefly summarized. The focus of the inventory will be on identifying areas that are protected or will be protected and identifying the gaps between these areas and additional needed actions. All DCG members and other organizations that may be involved in restoration work will be interviewed or surveyed. The inventory will be reviewed by the full DCG at its March 2003 meeting and reviewed with the public. It will be completed in April 2003.

Management Plan

Vision. The vision will be developed and written by the DCG as a whole. It will describe the desired future condition of the Basin. The vision statement will be

completed and available for public review by May 2003. The Outreach Coordinator will take the lead on working with all DCG members to develop the vision statement (80 hours).

Biological Objectives. The biological objectives will be based on the vision statement. They will explain how the limiting factors will be addressed and describe and quantify the resulting changes in biological performance of the focal species. The biological objectives will be developed by the Technical Team with support from ODFW, CTWS and the TOAST. They will be reviewed by the full DCG before adoption. They will be completed by June 2003.

Strategies. The strategies are the heart of the plan. Developing the strategies will take from June through September 2003. The initial proposed strategies will be developed by the Technical Team (320 hours of time investment by the ODFW and CTWS biologists), but they will be reviewed by the full DCG. Through the public participation process and the DCG, strategies will be prioritized and implementation sequence will be determined. The strategies will be directly linked to achieving the biological objectives. A data gap strategy will be included to assure that any data gaps identified in the planning process are filled.

Consistency with ESA and Clean Water Act Requirements. The DRC will work with the USFWS and NMFS to evaluate consistency with ESA requirements and with DEQ to determine consistency with Clean Water Act requirements. The plan will explain how the objectives and strategies are integrated with recovery goals for listed species and TMDL implementation plans.

Research, Monitoring and Evaluation. Research needs will be identified to assure that the critical assumptions in the analysis are addressed and data gaps filled. Additional monitoring and research studies needed for improved decision making will be identified. This portion of the plan will be developed by the Technical Team, but will be reviewed by the DCG to assure that it meets decision making needs and priorities. The TOAST will assist with preparation of the monitoring and evaluation component.

The draft management plan will be completed by December 2003 in order to allow adequate time for public review and response to comments before the plan is submitted to the NWPPC. A key opportunity and focus for public involvement will be the 2003 State of the Deschutes conference at Kah-Nee-Ta in December 2003.

Budget

Please see attached spreadsheet.

Assumptions:

1. The DCG will meet monthly for 14 months.

2. CTWS and ODFW biologists will work on contract to lead the Technical Team. Other Technical Team members will contribute their time, based upon agreements with the agencies on what they can provide.
3. The Project Manager will submit monthly written progress and financial reports to the Oregon Coordinating Group and BPA. The Project Manager will coordinate with the Oregon Coordinating Group and the TOAST liaison throughout the process and coordinate with all subcontractors (writer, outreach coordinator, CTWS and ODFW) on all deliverables. The Project Manager will also convene technical teams, as needed.

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April 5, 2002

**Memorandum of Understanding
Deschutes Basin Coordinating Group**

1. INTRODUCTION

The Northwest Power Planning Council (“NWPPC” or “Council”) adopts a Fish and Wildlife Program under the Northwest Power Planning Act to guide the investment of fish and wildlife restoration funds by the Bonneville Power Administration (“BPA” or “Bonneville”). The Council’s 2000 Fish and Wildlife Program calls for the adoption, by the Council, of subbasin plans in each major subbasin of the Columbia River Basin between 2002 and 2004.

The purpose of the Memorandum of Understanding is to form a group and establish a process that will be used by cooperating local stakeholders, private citizens, public organizations, local, tribal, state and federal governments to develop a watershed restoration plan for the Deschutes Basin in Central Oregon. The plan will be submitted to the Northwest Power Planning Council for adoption as a subbasin plan under the Council’s Fish and Wildlife Program. The plan will also be submitted to the Oregon Watershed Enhancement Board (“OWEB”) for consideration and adoption by OWEB as the goals and priorities for watershed restoration in the Deschutes Basin under ORS 541.371(1)(c).

The purpose of an adopted subbasin plan is to direct Bonneville funding to projects that enhance, mitigate and protect fish and wildlife populations that have been adversely impacted by the operation and maintenance of the Columbia River hydroelectric power system. The Council, Bonneville, the U.S. Bureau of Reclamation, the National Marine Fisheries Service (“NMFS”) and the U.S. Fish and Wildlife Service (“USFWS”) intend to use adopted subbasin plans to help meet requirements of the 2000 Federal Columbia River Power System Biological Opinion. The NMFS and the USFWS intend to use subbasin plans as building blocks for recovery planning for threatened and endangered species. The Oregon Department of Environmental Quality is interested in using such plans in developing and adopting implementation plans for total maximum daily load allocations under the Clean Water Act as well.

2. DEFINITIONS

2.1 “Basin” means all lands drained by the Deschutes River and its tributaries.

2.2 “Consensus” means an agreement of all parties that they can support an idea, proposal, alternative or recommendation, recognizing that not every party supports every idea, proposal, alternative or recommendation with equal enthusiasm. The “consensus” position represents the collective, general agreement of the participants on a topic, even though individual

participants may prefer their own position over the collective position. Participants signing this MOU agree to support the collective “consensus” position. The anticipated product of the planning process is a Plan that each party to this agreement can support for adoption by the Council, or at a minimum not challenge before the Council.

- 2.3 “Council” means the Northwest Power Planning Council.
- 2.4 “Coordinating Group” means the group of representatives of all Parties formed under Section 3 of this Agreement.
- 2.5 “Fiscal Agent” means the Party to this Agreement who will contract with the Council for the preparation of the Plan in order to oversee contract management for the Coordinating Group.
- 2.6 “Limiting Factors” means conditions that prevent or impede watershed restoration. When used in reference to fish and wildlife, “limiting factors” refers to conditions that currently inhibit populations and ecological processes and functions relative to their potential.
- 2.7 “Party” means any signatory to this Agreement.
- 2.8 “Plan” means the plan for protection, mitigation and enhancement of fish and wildlife resources and water quality through watershed restoration that will be prepared under this Agreement and submitted to the Council for adoption as a subbasin plan under the Council’s Fish and wildlife Program.
- 2.9 “Restoration” means to take actions likely to achieve sustainable population levels of native fish or wildlife and their habitat and meet applicable harvest objectives, water quality standards and instream water rights.
- 2.10 “Subbasin Assessment” means a compilation of existing scientific and technical information about the Deschutes watershed prepared in accordance with the Subbasin Assessment template adopted by the Council. The Subbasin Assessment for the Basin shall incorporate and build upon the existing watershed assessments submitted to the Oregon Watershed Enhancement Board and by federal land management agencies under the Northwest Forest Plan.
- 2.11 “Technical Teams” means interdisciplinary technical teams appointed by the Coordinating Group to assist in development of the Plan as described in Section 7.

3. PURPOSE OF AGREEMENT

The purpose of this Agreement is to establish a local group to prepare a watershed restoration plan for the Deschutes Basin in Central Oregon. The purpose of the Plan is to identify and prioritize actions needed to:

Protect and enhance streamflows to meet water quality standards, instream water rights, fish and wildlife habitat objectives and existing water rights;

Maintain the resource land base in the Basin, consistent with acknowledged comprehensive land use plans, and the economic viability of the resource-based economy in the Basin;

Meet municipal and industrial water needs over the next 50 years; and

Promote sustainability and conservation consistent with the custom, culture and quality of life in the Basin.

4. OPERATING PRINCIPLES

As a foundation for developing the Plan, Parties in the process agree to the following goals and operating principles:

- 4.1.1 Within the constraints of time, resources and existing regulatory program mandates and financial resources, develop a Plan to protect and restore the natural resources of the Basin including fish, wildlife and water quality in order to ensure regional economic viability and environmental quality for future generations.
- 4.1.2 Develop a Plan that will guide future investments in watershed restoration funding by the Council, Bonneville, the Oregon Watershed Enhancement Board and other funding organizations.
- 4.1.3 Be consistent with and, to the extent possible, assist in addressing the requirements of the Endangered Species Act, the Clean Water Act, the Oregon Plan and other laws and regulations.
- 4.1.4 Build upon past and on-going planning efforts by all Parties to avoid redundancy, accelerate preparation and maximize results. These existing efforts include, among others, watershed assessments, agricultural water quality management plans, Oregon Department of Fish and Wildlife fish management plans, federal land and resource management plans and planning done in conjunction with relicensing the Pelton/Round Butte hydroelectric project and the “Upper Deschutes River Basin Water Conservation Study” prepared by the U.S. Bureau of Reclamation and the Oregon Water Resources Department (April 1997).

- 4.1.5 Consider the entire Basin including the cumulative impacts and benefits of activities in the Basin.
- 4.1.6 Prioritize restoration needs and opportunities and, to the extent possible, identify potential mechanisms to help fund implementation efforts.

5 PARTIES

Anyone of the following governmental or quasi-governmental organizations may participate as parties to this Memorandum of Understanding:

- 5.1 Basin Organizations.
 - 5.1.1 Deschutes Resources Conservancy
 - 5.1.2 Wy'East RC & D
- 5.2 Confederated Tribes of Warm Springs.
- 5.3 Soil and Water Conservation Districts.
 - 5.3.1 Deschutes SWCD
 - 5.3.2 Crook SWCD
 - 5.3.3 Jefferson SWCD
 - 5.3.4 Sherman SWCD
 - 5.3.5 Wasco SWCD
- 5.4 Watershed Councils.
 - 5.4.1 Crooked River Watershed Council
 - 5.4.2 Upper Deschutes Watershed Council
 - 5.4.3 Trout Creek Watershed Council
 - 5.4.4 Willow Creek Watershed Council
 - 5.4.5 Sherman County Area Watershed Councils
 - 5.4.6 Wasco County Area Watershed Councils
- 5.5 Cities.
 - 5.5.1 City of Antelope
 - 5.5.2 City of Bend
 - 5.5.3 City of Culver
 - 5.5.4 City of Madras
 - 5.5.5 City of Maupin
 - 5.5.6 City of Metolius
 - 5.5.7 City of Prineville
 - 5.5.8 City of Redmond
 - 5.5.9 City of Sisters
- 5.6 Counties.

- 5.6.1 Crook County
- 5.6.2 Deschutes County
- 5.6.3 Jefferson County
- 5.6.4 Sherman County
- 5.6.5 Wasco County

- 5.7 Irrigation Districts.
 - 5.7.1 Arnold I.D.
 - 5.7.2 Central Oregon I.D.
 - 5.7.3 Ochoco I.D.
 - 5.7.4 North Unit I.D.
 - 5.7.5 Squaw Creek I.D.
 - 5.7.6 Swalley I.D.
 - 5.7.7 Tumalo I.D.
 - 5.7.8 Juniper Flats District Improvement Company
 - 5.7.9 Rock Creek District Improvement Company
 - 5.7.10 Badger District Improvement Company
 - 5.7.11 Lost and Boulder Ditch Improvement District

- 5.8 State Agencies.
 - 5.8.1 Oregon Department of Fish and Wildlife
 - 5.8.2 Oregon Department of Agriculture
 - 5.8.3 Oregon Department of Environmental Quality
 - 5.8.4 Oregon Department of Water Resources
 - 5.8.5 Oregon Department of Parks and Recreation
 - 5.8.6 Oregon Department of Forestry
 - 5.8.7 Central Corridor Community Solutions Office

- 5.9 Federal Management Agencies.
 - 5.9.1 U.S. Bureau of Land Management
 - 5.9.2 U.S. Bureau of Reclamation
 - 5.9.3 U.S. Forest Service

Other governmental or quasi-governmental organizations may join the Coordinating Group at any time during the planning process upon consent of all parties and execution of this Agreement. The Parties agree to cooperate and to provide technical and financial assistance, as available, in the preparation of the Plan for restoration of the Deschutes Basin watershed. The planning effort will be accomplished jointly through the Deschutes Basin Coordinating Group, comprised of representatives of all parties to this Agreement. Participation in the process is voluntary.

6 FEDERAL AGENCY PARTICIPATION

All other federal agencies with authority and responsibility within the Basin may participate in the planning process. Coordination methods will be established to assure that:

- Other federal agencies receive timely on-going information regarding preparation and contents of the Plan.
- Other federal agencies participate and provide input into the planning process.
- The Plan is consistent, to the extent feasible, with related plans for the Basin.
- Technical support from other federal agencies is facilitated during the planning process.
- Input is received from the Environmental Protection Agency, the U.S. Fish and Wildlife Service and the National Marine Fisheries Service so that the Plan may be the foundation for recovery plans and total maximum daily load allocations in the Basin.

7. COORDINATING GROUP

Each Party to this Agreement shall be represented by one spokesperson on the Basin Planning Coordinating Group for the planning process. The Coordinating Group will guide the planning process. The responsibilities of the Coordinating Group are to: (1) provide consensus based recommendations based upon information developed by the Technical Teams after input from all participants; (2) establish protocols to facilitate decision making and communication regarding the contents of the Plan; (3) establish and guide the Technical Teams; and (4) develop a Plan with specific goals, priorities and actions for watershed restoration.

At the first meeting of the Coordinating Group, the Chair will be selected by all parties. The Chair will be responsible for preparing the agenda for all meetings, leading discussions at the meetings, recording the meetings and all other aspects of facilitating the planning process.

7. TECHNICAL TEAMS

The Coordinating Group may establish technical teams. The Technical Teams shall be interdisciplinary teams organized to draw upon the knowledge, skills and abilities of different parties, resources agencies, tribes and organizations. Technical teams, acting through the fiscal agent, may contract with outside professionals to perform their assigned tasks. The duties and responsibilities of the technical teams are: (1) to prepare the Subbasin Assessment, including identification of Limiting Factors; (2) to inventory existing fish, wildlife and watershed restoration programs and activities within the Basin; (3) to develop specific biological objectives that clearly describe the physical and

biological changes needed to achieve the watershed restoration vision; and (4) to prepare the initial draft of the Plan for review and consideration by the Coordinating Group.

9. FISCAL AGENT

The Coordinating Group shall select a fiscal agent to contract with the Council and other organizations for preparation of the plan. The fiscal agent will act as the fiscal agent and contracting officer for all Parties to this Agreement. The fiscal agent will contract with other organizations for the services necessary to complete the Plan.

10. THE PLAN AND THE PLANNING PROCESS

The Plan will identify the goals for watershed restoration, establish the strategies to meet the goals and define objectives to measure progress toward the goals. The Plan will consist of four parts: an inventory of existing programs, activities and management plans, an assessment of biological potential and opportunities for restoration and a management plan. The management plan will include a vision statement, biological objectives, strategies and both short and long-term budgets for implementation.

The Parties will follow guidance provided by the NWPPC for the subbasin planning process and expect to take the following steps in the process:

- 10.1 Develop and Approve Work Plan and Budget
- 10.2 Review Subbasin Summary
- 10.3 Prepare Subbasin Assessment
 - 10.3.1 Review and integrate existing assessments and plans
 - 10.3.2 Integrate EDT analysis
 - 10.3.3 Develop Working Hypotheses (Limiting Factors)
- 10.4 Inventory Existing Program and Activities
- 10.5 Develop and Approve Vision Statement
- 10.6 Identify Biological Objectives
- 10.7 Develop Strategies and Priorities
- 10.8 Prepare and Review Draft Management Plan
- 10.9 Distribute Draft Plan for Public Review and Comment
- 10.10 Revise Draft Plan in Response to Comments
- 10.11 Submit Plan to Council and OWEB
- 10.12 Submit Plan to Governing Bodies of all Parties
- 10.13 Coordination with Federal, Tribal and State Regulatory Agencies

11. PUBLIC PARTICIPATION AND COMMUNICATION DURING THE PLANNING PROCESS

- 11.1 Public Participation. All meetings of the Coordinating Group and Technical Teams shall be open to the public and subject to the

requirements of the Oregon Public Meetings Act. All records of the Coordinating Group shall be subject to the Oregon Public Records Act. The Coordinating Group shall solicit and encourage participation in the planning process by all citizens and organizations in the Basin who are interested in and support watershed restoration.

11.2 Communication.

11.2.1 While Parties are encouraged to advocate for management strategies and plan provisions, Parties agree to refrain from unnecessarily characterizing the opinions, interests, positions, motivations or values of any other participant or group in any public discussions.

11.2.2 Parties will listen to each other and will keep open minds during the planning process. Parties will refrain from lengthy speeches during group meetings and will refrain from side conversations.

11.2.3 Parties will not personally attack or question the motivation of any other participant.

11.2.4 Parties accept responsibility for keeping their associates, colleagues, clients constituencies, boards, commissions and councils informed of the progress, to seek advice and comment from them and to work with them to understand the perspectives of other parties to the planning process.

11.2.5 Parties agree to bring back to the planning process relevant advice and comments from their associates, colleagues, clients, constituents, boards, commissions and councils.

11.2.6 Parties agree to work out differences through the planning process and not in the press or other public arenas.

12. INTERNAL DECISION MAKING

12.1 In order to facilitate the broadest possible consideration of options and solutions, all suggestions and offers will be regarded as tentative until full agreement is reached.

12.2 During Coordinating Group meetings, the Chair will be responsible for polling representatives to assess the degree of agreement on any given issue. For group decisions related to the process, the Chair will assume general agreement if there is no dissent. Parties are responsible for providing the Chair with a clear indication of their level of agreement.

- 12.3 Parties will not agree to any provisions, action or agreement for which they are unwilling to seek the concurrence of those who share their interest and/or those they directly represent.
- 12.4 Parties understand that many parties to this Agreement do not have the authority to bind those whose interests they represent or whose interest they attempt to represent or articulate; and that agreement reached with such parties must remain tentative until the Basin Plan is adopted or approved by the governing board of the Party.

13. TIMELINES, IMPLEMENTATION AND FUNDING

- 13.1 The Parties agree to actively support work under this Agreement aimed at adoption of the Basin Plan by the Council and OWEB by Fall 2003 considering limitations imposed by availability of necessary personnel and budgets
- 13.2 The Parties agree that nothing in this Agreement commits their respective organizations to adopt or approve the Basin Plan, however, all Parties agree to submit the Basin Plan to their governing boards for adoption and inclusion in their own plans to the extent possible.

14. GENERAL PROVISIONS

- 14.1 Any Party may terminate its participation in this Memorandum of Understanding after thirty (30) days prior notice to the other Parties. During the intervening thirty (30) days, the Parties agree to actively attempt to resolve outstanding disputes or disagreements.
- 14.2 All Parties recognize that the Parties and their representatives have statutory responsibilities and otherwise which cannot be waived or abrogated. This Agreement does not affect such non-discretionary mandates.
- 14.3 Nothing in this Agreement shall commit the Parties or their representatives to expenditure of funds not appropriated by law and administratively allocated for the Basin Planning process.
- 14.4 Amendments to this Agreement may be proposed by any Party and shall become effective upon written approval of all Parties.
- 14.5 This Agreement shall terminate automatically upon approval of the Basin Plan by the Northwest Power Planning Council.

15. DISCLAIMERS

Nothing in this Agreement shall affect the legal position of any party on any issue through waiver, estoppel or other similar principle.

16. SIGNATURES OF PARTICIPANTS

16.1 By signing this Agreement, I understand that I am agreeing to participate in the Basin Planning process as described in this Agreement and that I will comply with the terms and conditions of the Agreement. I understand that I will be identified as a Participant in the planning process and will be represented on the Planning Coordinating Group.

16.2 This Agreement may be signed in counterparts if signed signature pages are sent to the Deschutes Resources Conservancy at P.O. Box 1560, Bend, Oregon 97709.

17. EFFECTIVE DATE

This Agreement shall be effective upon signature by sixteen of the parties identified in Section 5 above.

Name: _____

Signature: _____

Title: _____

Organization: _____

Address: _____

Telephone: _____

Designated Representative: _____

Email Address: _____

Date: _____

FRANK L. CASSIDY JR.
"Larry"
CHAIR
Washington

Tom Karier
Washington

Eric J. Bloch
Oregon

John Brogoitti
Oregon

NORTHWEST POWER PLANNING COUNCIL

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October 9, 2002

MEMORANDUM

TO: Council Members

FROM: Dick Watson

SUBJECT: Public Utility Commission panels on the Federal Energy Regulatory Commission's Notice of Proposed Rulemaking on Standard Market Design (SMD) and its recent the RTO West Stage 2 filing

One of the most contentious issues facing the utility industry at the present time is FERC's initiative to impose a standard market design (SMD) on the wholesale electricity market. In so doing, they appear to be trying to impose a market model based on experience in the East that does not fit the physical and operational realities of the Western Power market well at all. In addition, in so doing, the FERC would be asserting its regulatory authority over transmission used primarily to serve retail utilities' native load. This transmission is currently regulated by state commissions. Attached is a copy of a letter from the Western Governor's Association outlining the Governor's main objections to the Standard Market Design.

A related and complicating issue is the subsequent FERC order generally approving the FERC RTO West Stage 2 filing. This filing describes how major Northwest transmission owners, including investor-owned utilities would comply with FERC's desire to see Regional Transmission Organizations established throughout the Country. The order appears to defer to the RTO West filing in many but not all important aspects of the Standard Market Design. There is not unanimity in the region in support of the formation of an RTO. Some vigorously oppose it. Some believe that it is a step toward resolving some of the incipient problems facing the transmission system. The issue of governance of the RTO and the diminution of the role of state and local politically accountable regulators in the oversight of the RTO is significant.

FERC has recently extended the deadline for comment on the SMD until January, giving us some additional time to consider our comments. There are issues of both strategy and substance. For example, should we simply work to stop SMD in its tracks or can it be "fixed?" Is the FERC order on the RTO West filing an indication of FERC's willingness to accept regionally developed solutions or is it a "Trojan Horse" intended to move the region to FERC's goal of the Standard Market Design?

State regulators have been at the forefront on these issues and it is important to hear their perspectives. They are not identical. Because of schedule constraints we have not been able to get representatives from all four state commission at one time. On Wednesday you will hear from Marilyn Showalter, Chair of the Washington Utilities and Transportation Commission; and Marsha

Smith, Member of the Idaho Public Utilities Commission and Chair of the Committee on Regional Electric Power Cooperation (under the auspices of the WGA). On Thursday, you will hear from Roy Hemmingway, Chair of the Oregon PUC and former member of the Council; and Bob Anderson, member of the Montana Public Service Commission and past-President of the National Association of Regulatory Utility Commissions (NARUC).

They have been asked to respond to the following questions:

- What are the transmission problems we have or perhaps don't have in your state and the region?
- How well do FERC's standard market design and RTO West address these problems?



WESTERN GOVERNORS' ASSOCIATION

Judy Martz
Governor of Montana
Chairman

James M. Souby
Executive Director

Headquarters:
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Suite 200
Denver, Colorado 80202-5114

303-623-9378
Fax 303-534-7309

Washington, D.C. Office:
400 N. Capitol Street, N.W.
Suite 388
Washington, D.C. 20001

202-624-5402
Fax 202-624-7707

www.westgov.org

August 22, 2002

Patrick H. Wood
Chairman
Federal Energy Regulatory Commission
888 First Street, NE, 11A
Washington, DC 20426

The Honorable Nora Brownell
Commissioner
Federal Energy Regulatory Commission
888 First Street, N.E., Rm. 11A
Washington, DC 20426

Linda K. Breathitt
Commissioner
Federal Energy Regulatory Commission
888 First Street, NE, 11C
Washington, DC 20426

William L. Massey
Commissioner
Federal Energy Regulatory Commission
888 First Street, N.E., Rm 11D
Washington, DC 20426

Dear Chairman Wood and Commissioners Breathitt, Brownell and Massey:

Western governors are in the midst of our review of the Commission's proposed Standard Market Design rule. Our review thus far raises a number of concerns that we want to convey to you. These are listed below. Individual governors and/or the Western Governors' Association will be providing additional comments after we complete our review of the Commission's proposal.

- The SMD rule seems to mark an end to efforts to form voluntary RTOs in the West. This is unfortunate and serves to undercut the enormous time, effort, and expense that has gone into the development of voluntary RTOs in the Western Interconnection.
- Expansion of the Commission's authority into state decisions such as resource adequacy and demand response is not warranted. We agree with FERC that more work needs to be done in these areas and significant efforts are underway in the West. These efforts, which would benefit from FERC's participation, may be undermined by the SMD rule. Rather than imposing an SMD rule from Washington, D.C., we believe FERC should participate in ongoing regional efforts on resource adequacy, transmission planning and demand response.
- Key elements of the SMD proposal are extrapolated from the experience of PJM (Pennsylvania-New Jersey-Maryland), a geographically small, "tight" power pool in the East. We have serious concerns about the wisdom and unintended consequences of trying to graft the PJM approach on to the huge Western Interconnection that spans parts of three nations.

Chairman Patrick H. Wood
Commissioner Linda K. Breathitt
Commissioner Nora Brownell
Commissioner William L. Massey
August 22, 2002
Page 2

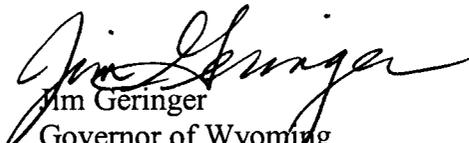
There are significant differences between the experience in the East and the West. For example, the pricing system FERC is proposing has only been tested in systems dominated by thermal generation. In the West, hydropower provides a large share of generation. The West does not use Transmission Loading Relief schemes, a practice the SMD rule attacks. Unlike the PJM region, public power, which is not directly subject to the SMD rule, provides a significant share of the generation and transmission in the West.

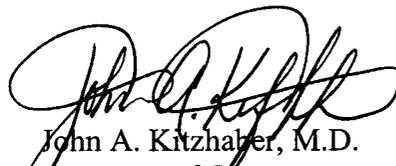
- Our experience in the West over the past two years has shown the immense personal and economic hardship resulting from not fully understanding the implications of changes in electricity policy. The implications of FERC's proposal need to be carefully studied and understood before moving ahead with the provisions of the SMD rule in the West.
- FERC's proposal to unravel protections afforded to utilities' native load customers is very troubling. These protections have been carefully crafted by state PUCs and are time-tested.
- The presently fragile Western economy cannot afford missteps that may result from the unprecedented changes to our electric power system that are embodied in the SMD rule. The uncertainties that would be introduced by the SMD rule may dampen investor confidence and leave the West short of generation.

There may be regions of the country that are anxious to implement the SMD rule. We suggest that FERC test its SMD rule in those regions first and learn from that experience.

We intend to continue our examination of the proposed SMD rule and to share with you and our Congressional delegations our findings.

Sincerely,


Jim Geringer
Governor of Wyoming
Co-lead Governor for Energy


John A. Kitzhaber, M.D.
Governor of Oregon
Co-lead Governor for Energy

FRANK L. CASSIDY JR.
"Larry"
CHAIR
Washington

Tom Karier
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Oregon

John Brogoitti
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October 9, 2002

MEMORANDUM

TO: Council Members

FROM: Brian Allee and Bill Hannaford

SUBJECT: An Amendment to the Master Contract for Subbasin Planning

Proposed Action

Staff recommends that the Council approve an amendment proposed by the Bonneville Power Administration (Bonneville) to the Master Contract for subbasin planning that the Council entered into with Bonneville in June 2002. The amendment would replace purpose 2 under II. Project Goals, with the following language.

Guide Bonneville's expenditures to ensure the avoidance of jeopardy and progress towards recovery of ESA listed populations as affected by the Federal Columbia River Power System (FCRPS), while satisfying the requirements of the Northwest Power Act.

Background

The UCUT tribes, the Intermountain Province Group and some Council Members expressed concern regarding the original language for purpose 2 from II. Project Goals, "Guide Bonneville's expenditures by giving priority to strategies for ESA recovery activities as Bonneville implements the Council 2000 Program through subbasin plans." These parties were concerned that this expression gave precedence to funding projects for listed species over the protection, mitigation and enhancement obligations prescribed by the Northwest Power Act.

At its September meeting, the Council released this proposed change for public comment. Several members raised questions about certain words in the proposed amendment and staff explained that the words that appear were chosen either to track statutory provisions or to reflect what courts have said about the relationship between Bonneville and the Council's fish and wildlife program. When the comment period ended on October 4th, 2002, the Council had received no further comment. The parties that expressed concern with the original language now support Bonneville's proposed change. Therefore, the staff recommends replacing the original language with that proposed by Bonneville.

FRANK L. CASSIDY JR.
"Larry"
CHAIR
Washington

Tom Karier
Washington

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Ed Bartlett
Montana

John Hines
Montana

October 9, 2002

MEMORANDUM

TO: Fish and Wildlife Committee

FROM: Mark Fritsch

SUBJECT: CBFWA Funding Request - Project 2000-013-00, "An evaluation of an experimental re-introduction of sockeye salmon into Skaha Lake"

Action

Council staff will present the above request by the Colville Confederated Tribes to the Fish and Wildlife Committee at your meeting on October 15th. The request is for \$49,700 to complete environmental sampling to provide informational needs requested by Canada agencies' regarding the possible re-introduction of sockeye salmon into Skaha Lake. The current contractual period¹ for the project is limited therefore the funding request will be presented to the Committee and Council at this meeting.

Recommendation

Council staff recommends that the Fish and Wildlife Committee approve this request for an additional task under Objective 3 of the project's proposal and recommend that Bonneville authorize an additional \$49,700 to the current budget from the Fiscal Year 2003 unallocated placeholder to fund this request.

Background

On September 9, 2002, the Columbia Basin Fish and Wildlife Authority (CBFWA) recommended modifying the scope of work and budget for Project 2000-013-00, *An evaluation of an experimental re-introduction of sockeye salmon into Skaha Lake*, to complete the evaluation at a level that would meet the appropriate Canadian agencies' needs for implementation. This recommendation is for an additional \$49,700 to expand environmental sampling to a monthly schedule from the previously budgeted seasonal schedule for this project (see attachment 1).

The goal of this project, proposed and funded initially in Fiscal Year 2000 and currently in its final year of the three-year program is to assess risks and benefits, formulate hypotheses, and

¹ March 1, 2002 to February 28, 2003

develop an experimental design and analytical tools for the possible re-introduction of sockeye salmon into Skaha Lake. Following are the objectives of the project as defined in the FY 2000 project proposal².

Objective 1. Disease risk assessment.

Objective 2. Exotic species re-introduction risk assessment.

Objective 3. Inventory existing habitat and opportunities for habitat enhancement.

Objective 4. Develop life-cycle model of Okanagan salmonids, including interactions with resident kokanee.

Objective 5. Develop experimental design.

Objective 6. Finalize plan for experimental re-introduction of sockeye salmon into Skaha Lake and associated monitoring programs.

Upon completion of the first year of project implementation, questions were raised regarding the rearing capacity of the lakes. This was due to the identification of *Mysis relicta*, in large concentrations, in Skaha Lake. There is evidence that the introduction of mysids into a lake can coincide with a decline in kokanee abundance, or if a successful re-introduction of sockeye is even feasible. In an effort to address the ramifications of this evidence the project sponsor attempted to conduct the needed work associated with this additional task but was unable to conduct additional monitoring and maintain their reviewed and approved budget.

It was determined that an additional task identifying expanded sampling was needed to further evaluate the rearing conditions and *Mysis relicta*/*O. nerka* interactions in Skaha Lake and the north basin of Osoyoos Lake. In addition, diel migration information for *O. nerka* and *M. relicta* will be collected over the growing season to begin to understand the interactions between them.

To complete this effort the sponsor is requesting a \$49,700 budget modification to their FY 2002 budget for a new task³ under Objective 3 of the project proposal⁴.

Analysis

The sponsor feels that this budget modification request will ensure that a full evaluation of experimental re-introduction of sockeye in Skaha Lake is attained to an acceptable level for the Canadian agencies (Okanagan Nation Fisheries Commission, provincial and federal governments) to use when considering the implementation phase of this project⁵. In addition, the sponsors have developed this modification request with Bonneville.

The CBFWA, Anadromous Fish Committee reviewed this request and the CBFWA Members support modifying the budget and scope of work for Project 2000-013-00, *An evaluation of an experimental re-introduction of sockeye salmon in to Skaha Lake*, from the FY 2002 Integrated Unallocated Placeholder for a one-time increase in budget of \$49,700.

² Objective 1 through 3 span the three-year period. Objective 4 was completed in the second year, and Objective 5 and 6 will be completed in the third year ('03)

³ Assess potential rearing conditions in Skaha and Osoyoos Lakes (temperature, dissolved oxygen, zooplankton/mysid, water chemistry for nutrients).

⁴ Approved budgets for this project as amounted to FY 2000 @\$171,000, FY 2001 @ \$180,000 and FY 2002 @ \$237,155

⁵ As discussed with the project sponsors on October 6, 1999, the implementation phase of this project is dependant on a favorable step review.

Attachment 1: Letter received from CBFWA requesting budget modification for Project 2000-013-00 on September 9, 2002.



September 9, 2002

Frank L. Cassidy, Jr., Chair
Northwest Power Planning Council
851 SW 6th Avenue, Suite 1100
Portland, OR 97204-1348

Dear Chairman Cassidy:

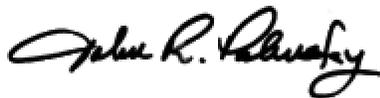
The Columbia Basin Fish and Wildlife Authority (CBFWA) Members recommend modifying the scope of work and budget for Project 200001300, *An evaluation of an experimental re-introduction of sockeye salmon into Skaha Lake*, in order to complete the full evaluation at a level that will meet the appropriate Canadian agencies' needs for implementation of re-introduction. This recommendation is for an additional \$49,700 to expand environmental sampling to a monthly schedule from a seasonal schedule during the final year of field work for this project.

The re-introduction project has proceeded on schedule and budget during its three year life. There is tremendous promise for re-introducing sockeye salmon into Skaha Lake and other lakes in the Okanagan Subbasin, thus increasing production by orders of magnitude. The project sponsor is working closely with their Canadian counterparts to insure a timely and effective reintroduction effort. These funds will allow future phases of implementation to proceed.

The CBFWA Members recommend approval of this request by the NWPPC. The Anadromous Fish Committee reviewed this request and the CBFWA Members support modifying the budget and scope of work for Project 200001300, *An evaluation of an experimental re-introduction of sockeye salmon in to Skaha Lake*, from the FY 2002 Integrated Unallocated Placeholder for a one-time increase in budget of \$49,700.

Thank you for your consideration.

Sincerely,



for

Robert Lohn, Vice Chair
Columbia Basin Fish and Wildlife Authority

cc: CBFWA Members and Fish and Wildlife Managers
Sarah McNary and Bob Austin, BPA
Doug Marker, NWPPC
NWPPC Members and Staff

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FRANK L. CASSIDY JR.
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Ed Bartlett
Montana

John Hines
Montana

October 7, 2002

MEMORANDUM

TO: Fish and Wildlife Committee

FROM: Mark Fritsch

SUBJECT: Funding Request - Project 1988-120-26, "Yakima/Klickitat Fisheries Program (YKFP)"

Action

Council staff will present the above request by the Yakama Nation to the Fish and Wildlife Committee at your meeting in Spokane on October 15th. The request is for \$188,407 to complete their training and education of four tribal personnel currently in school to fulfill operational needs to meet the goals and objectives of the Yakima Klickitat Fisheries Project.

Recommendation

Council staff recommends that the Fish and Wildlife Committee not approve the request as received. Council staff suggests that the Council support actions by Bonneville, working in coordination with Yakama Nation Fisheries Management, to prioritize the existing budget associated with Project 1988-120-25, *Yakima/Klickitat Fisheries Project (YKFP) Management*, to address the emergency needs of the students.

Background

The goal of this proposal is to provide support for training and educational assistance to selected Tribal personnel to ultimately fulfill the management and other key positions within the YKFP.

On September 22, 1999, the Council approved \$231,000 from unallocated FY 1999 funds to complete training and education programs for six fish culturists and one fish biologist for the

hatchery program. The Yakama Nation had asked the Council to restore funds to a project that was approved in the 1998 selection process but were not used that year¹.

Through this project, the Yakama Nation has been able to train tribal members to staff the Cle Elum Supplementation and Research facility as well as other projects within the YKFP. The project has provided three personnel with four year degrees (i.e. Bachelor of Science) and an additional five with two year Associate Degrees² meeting the goals of the Yakama Nation's 1998 request.

On May 29, 2002 the Yakama Nation requested an additional \$188,407 for 2003, \$150,561 for 2004, and \$102,346 for 2005 totaling [Mark - wrong total]. The request would support four fish culturists and their salary, tuition, fees, books, supplies, and housing needs.

On September 9, 2002, the Columbia Basin Fish and Wildlife Authority (CBFWA) Members recommended an additional \$188,407 for the project conditioned as a one-time budget increase to allow the current enrolled students to complete the 2002/2003 school year.

Analysis

Project 1988-120-26 has not been separately reviewed in the Council's project funding process and was not submitted in the Columbia Plateau provincial review. It is linked to Project 1988-120-25, *Yakima/Klickitat Fisheries Project (YKFP) Management*, as a subcontract. This project was reviewed during the Columbia Plateau Province, though the project proposal and narrative only footnotes the "training and educational" element, but does not identify a specific objective or task³. The staff concludes that this is not qualified as a separate, ongoing project.

The Yakama Nation currently has an additional four students already enrolled in higher education programs to prepare them to operate production facilities associated with the YKFP⁴. The funding has been extended, although not augmented since the Council recommended a one-year extension of the project in 1999.

It seems that this request repeats the problem that occurred in 1999 in that there was no anticipation of the need for the funding and the timely submittal of a project proposal for regional review. It also appears that the scope of the original proposal as approved by the Council has changed from the education and training of six "Technician/Culturist" to an additional four. During Council deliberation on September 22, 1999 Council members expressed their concern that the approval of funding was an exception and would not set a precedent for this type of approval outside

¹ During the 1998 project selection process, \$231,000 was approved by the Council for a Yakama Fisheries Program Hatchery Training and Education Project. Bonneville did not receive a work statement for the project during FY 1998, but received it in early FY 1999. The cover letter was dated November 16, 1998 but was apparently delayed by internal review processes and therefore was received by BPA several weeks after that date. After conclusion of the FY 1998, BPA, CBFWA and the Council staff identify unspent funds associated with the projects and determine that the unspent funds associated with this project be returned to the placeholder. It appears that this decision was not apparent to the sponsor or BPA at the appropriate Quarterly Review when this alignment was discussed.

²Through 1999 three personnel have received a Bachelor of Science and five have completed a two year Associate Degree.

³ It is footnoted under "Out year objective-based budget" and "Other budget explanation" as a note stating that outyear projections beginning with FY2003 includes a Training and Education component.

⁴ Three students completed first year of two year Associate Degree in fish culture and one student completed second year in Fisheries Science at the University of Idaho

the normal process. At the time, the Council stressed that any future proposal should be reviewed, as other projects, to verify their benefits to fish and wildlife in the basin.

The request from CBFWA does not address the past or current status of this subcontract, therefore Council staff does not feel that it is appropriate to approve this funding request and suggest that Bonneville encourage the tribe to fund the emergency needs of this study from within the budget approved for Project 1988-120-25, *Yakima/Klickitat Fisheries Project (YKFP) Management* during the Columbia Plateau review.

The issue of providing financial support for Tribal fisheries education is one the Council, Tribes and Bonneville should continue to discuss. Before additional Council recommendations are made for these types of projects, the Council, working in cooperation with the Tribes and Bonneville, should consider how alternative institutional funding maybe identified and utilized to support Tribal fisheries education.

Attachment 1: Letter received from CBFWA requesting budget modification for Project #198812026 on September 9, 2002.



September 9, 2002

Frank L. Cassidy, Jr., Chair
Northwest Power Planning Council
851 SW 6th Avenue, Suite 1100
Portland, OR 97204-1348

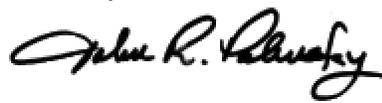
Dear Chairman Cassidy:

The Columbia Basin Fish and Wildlife Authority (CBFWA) Members recommend modifying the scope of work and budget for Project 198812026, *Yakima/Klickitat Fisheries Program (YKFP) – Training and Education*, in order to allow the current enrolled students to complete the 2002/2003 school year. This recommendation is for \$188,407 to fund four students to complete their training and education to meet manpower needs for the YKFP hatchery program.

The CBFWA Members recommend approval of this request by the Northwest Power Planning Council. The Anadromous Fish Committee reviewed this request and the CBFWA Members support modifying the budget and scope of work for Project 198812026, *YKFP – Training and Education*, from the FY 2002 Integrated Unallocated Placeholder for a one-time increase in budget of \$188,407.

Thank you for your consideration.

Sincerely,



for

Robert Lohn, Vice Chair
Columbia Basin Fish and Wildlife Authority

cc: CBFWA Members and Fish and Wildlife Managers
Sarah McNary and Bob Austin, BPA
Doug Marker, NWPPC
NWPPC Members and Staff

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FRANK L. CASSIDY JR.
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Ed Bartlett
Montana
John Hines
Montana

October 8, 2002

MEMORANDUM

TO: Fish and Wildlife Committee

FROM: Mark Fritsch

SUBJECT: Economic Review of Project 1993-060-00, Select Area Fishery Evaluation Project

Action

At your meeting in Spokane on October 11 - 13, 2002 the project sponsors will present the enclosed information to the Fish and Wildlife Committee (see attached document). Council staff is seeking a Committee recommendation regarding the adequacy of this economic information as it relates to the condition placed on this project by the Council. The Committee recommendation will be presented to the Council at this meeting to allow timely guidance to Bonneville so that it may, if approved by the Council, proceed with contracting for the project (The project's contractual period is the same as the fiscal year).

Background

On September 11, 2002 the Council provided funding recommendations to Bonneville for the Estuary, Lower Columbia, Columbia Cascade, Middle Snake, and Upper Snake provinces.

The Council requested that prior to approval of the staff recommendation for project 1993-060-00, *Select Area Fishery Evaluation Project (SAFE)* included as part of the Lower Columbia and Estuary provincial review, that the sponsors (Wash. Dept. of Fish & Wildlife, Oregon Dept. of Fish & Wildlife, and Clatsop County Economic Development Council) provide additional information on the economic benefits accruing to the commercial fishing economy through the implementation of this project (see attachment 1).

For purposes of comparing Bonneville investment with the economic value information provided by the sponsor, the following table shows Bonneville's previous funding support of the project and the sponsors' request as part of the Lower Columbia and Estuary provincial review:

Budget history (shaded FY's reflect amounts recommended by the staff during the province review)

FY	94	95	96	97	98	99	00	01	02	03	04	05
Total	418	394	786	785	900	1,400	1,400	1,500	1,551	1,679	1,648	1,703

Staff Recommendation

The staff recommends that the Council find that the project sponsors have addressed the condition placed on this project as part of the Estuary provincial. Staff further recommends that the Council direct Bonneville to fund the project at the levels, and with the conditions, provided in the staff recommendation for the Lower Columbia and Estuary (see attached staff recommendation from the September Council meeting). As it does with all fish and wildlife projects, the Council supports identifying available measures to further reduce the costs of the project while meeting its objectives.

Attachment 1: Council staff recommendation for Project 1993-060-00, *Select Area Fishery Evaluation Project*, as presented to the Council on September 11 - 13, 2002.

Columbia Lower Issue 1: *Select Area Fishery Evaluation Project (Project 199306000)*

Initial Staff Recommendation: In 1993, Bonneville initiated the Columbia River Terminal Fisheries Project (now named the Select Area Fishery Evaluation (SAFE) project), a 10-year comprehensive program to investigate the feasibility of terminal fisheries in Youngs Bay and other sites in Oregon and Washington. This cooperative project between the Oregon Department of Fish and Wildlife (ODFW), Washington Department of Fish and Wildlife (WDFW), and Clatsop County Economic Development Council's (CEDC) Fisheries Project explored the means to increase harvest of hatchery fish while providing greater protection to weak wild salmon stocks. The project developed in three distinct stages: an initial two-year research phase to investigate potential sites, salmon stocks, and methodologies; a second three-year phase of expansion in Youngs Bay and introduction into areas of greatest potential as shown from the initial work; and a final five-year phase of establishing terminal fisheries at full capacity at all acceptable sites. Currently, the project is in the third phase.

The project received a "Fundable in Part" recommendation from the ISRP. The ISRP supported the ongoing activities but did not support any expansion of the project due to lack of scientific and economic justifications. The ISRP stated that before any additional investment into the expansion of this project an economic analysis and a determination of potential impact on listed stocks should be conducted. CBFWA rated the projects as High Priority.

Bonneville recommended funding the project for the implementation of RPA 164 (Harvest Strategy 1: Develop fishing techniques to enable fisheries to target non-listed fish while reducing harvest-related mortality on ESA-listed species) and recommended that the funding of the project be conditioned on the submittal of delinquent annual reports. In addition, Bonneville concurred with the ISRP regarding the current scope, though they mentioned the excessive costs associated with the project.

NOAA Fisheries indicated that there is no association of this project to the Biological Opinion for the Federal Columbia River Power System and stated "close evaluation of this project is needed before any expansion to avoid any risk to listed fish."

Council staff concurs with the findings of the ISRP, Bonneville and NOAA and supports no expansion of the production associated with the project. Funding for Fiscal Year 2003, 2004 and 2005 reflects no expansion of the project, but applies the 3.4% rule. Funds were provided in Fiscal Year 2003 to relocate a net pen at Tongue Point. This reflects a one-time cost of \$71,000 to relocate the net pen from a leased area where the project has lost the ability to lease the location, to a new dock.

Funding associated with Fiscal Year 2003 will address the tenth and final year of the feasibility study. The Council needs to receive a final report regarding this project summarizing and evaluating the findings and conclusions of this investigation regarding the feasibility of terminal fisheries in the lower Columbia. This report needs to be comprehensive and must address the current dynamics in the commercial fisheries such as the market, the economic value of the fisheries made possible through this project, and the value to the industry of this project in the context of all other fishing opportunities and activities in the lower Columbia and Estuary that the industry now has available. .

At the conclusion of the tenth season the information and data collected to date will need to be summarized and analyzed with the report submitted in Fiscal Year 2004. Activities associated with this final report and project review needs to occur within the budget proposed in the staff recommendation. If there is a budget shortfall, sponsors will need to prioritize tasks from within budget to ensure completion of these final report activities. Staff recommends that the project sponsors' final report be reviewed by both the ISRP and the IEAB during Fiscal Year 2004, and that future funding for this proposal (i.e. Fiscal Year 2005) is conditioned on a favorable review by these advisory boards and the Council.

Funding for the project will come from the base budget allocation for these provinces.

FRANK L. CASSIDY JR.
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October 9, 2002

MEMORANDUM

TO: Council Members

FROM: Terry Morlan

SUBJECT: RAND Analysis on *Generating Electric Power in the Pacific Northwest*

A report by RAND entitled *Generating Electric Power in the Pacific Northwest: Implications of Alternative Technologies* has generated a lot of headlines and discussion in the region. This memorandum discusses the report and helps to put it in the context of the Council's planning process for the Pacific Northwest and other regional analyses of similar issues.

The RAND study examines three different scenarios of diversifying the regional power supply by increasing reliance on conservation and renewable resources. The first is pretty straightforward and is similar to a question the Council addresses in its planning. That is, what would be the effect of meeting some of the region's load growth with conservation and renewable resources? The other two scenarios address a similar question, but have chosen to use two regional "hot buttons" as a framework for the analysis. One looks at the effects of replacing the four Lower Snake River dams with conservation and renewables, and the other examines the effects of building enough renewables and conservation to serve the loads of the direct service industries.

RAND's measure of merit is changes in gross regional product and employment. The use of gross regional product and employment as a measure of merit is not uncommon, but it is difficult to measure such impacts, and it comes with the unavoidable conclusion that any actions taken in the electricity sector will appear insignificant in the context of the region's \$400 billion economy. Predictably, the conclusion of the study was that increased reliance on conservation and renewables to displace natural gas plants, Lower Snake River dams, or serve DSI loads would have no significant impact on the regional economy.

Perhaps the most regrettable aspect of the RAND study is that it ignored the Pacific Northwest's historically strong commitment to efficiency and renewable energy. Implementation of past Council plans has resulted in the development of 1,600 megawatts of conservation over the past 20 years. The region has over 500 megawatts of wind capacity in place, including Wyoming projects owned by PacifiCorp, Bonneville, and the Eugene Water and Electric Board. The RAND study was done in the context of a U.S. Energy Information Administration (EIA) forecast that assumed the region would develop 123 megawatts of wind capacity by 2020 and apparently no programmatic conservation.

The Council's power plans represent a much more detailed analysis of the potential value of conservation and renewables. In addition, the Corps of Engineers study of the economics of alternatives for the Lower Snake River was a more comprehensive analysis of the issue of dam removal. Both the Council's plan and the Corps study were done with wide and meaningful public participation and review through advisory committees, public comments and hearings. The Corps analysis was also peer reviewed by the Council's Independent Economic Analysis Board. The RAND report was reviewed internally by RAND and by Jim Lazar of Microdesign Northwest, and informally by the Northwest Energy Coalition, Save our Wild Salmon.

It is useful to contrast the basic measures of merit for the Council's planning with the RAND study. Instead of gross regional product or employment, the Council's measure of merit for its power plans has been a measure of electric system cost over time combined with measures of risk. The Council's approach is to determine how much conservation or renewable resources would be cost effective such that the total cost over time of providing electricity services in the region would be minimized. Thus, the Council's power plans are focused on the economic efficiency of providing electricity services, e.g. space heating, water heating, etc. Council plans do not attempt to evaluate the impacts of alternative electricity supplies on the entire regional economy.

The RAND study is broader in that it looks at the impacts of alternatives on production (value added) and employment in the region. One of the dangers of this type of impact analysis is that increasing the cost of providing electricity services can also appear as an increase in regional production and employment. In theory, a general equilibrium model such as RAND uses in this study should also reflect the negative effects due to the fact that if electricity costs increase for consumers they will spend less on other products and services, and if capital is wasted in electricity investments it will not be available for other more efficient investments. If modeled correctly, a less efficient (more costly) supply of electricity should result in less production and employment from a national or global perspective because resources are being used less efficiently. From a regional perspective, however, if the change in activity favors local industries, local production and employment could increase.

The RAND study takes as its basis forecasts of Pacific Northwest electricity demand and generation by the U.S. Energy Information Administration (EIA). The EIA forecast predicts the addition of 10,200 megawatts of generating capacity by 2020, 10,000 megawatts of which is expected to be natural gas-fired combined cycle turbines. The Council's forecast implies less than 7000 megawatts of needed electricity generation growth even with relatively robust DSI assumptions. The RAND study evaluates the use of different mixes of resources to meet the projected load growth. The scenarios contain different amounts of wind, solar and efficiency improvements to replace existing resources or meet part of the region's load growth. It also considers uncertainty about future natural gas prices, technological progress in renewable generation costs, and conservation costs to generate a range of results for each scenario.

Although the effects of the RAND scenarios are very small in terms of the entire regional economy, the direction of effects is interesting. When 20 percent of the EIA forecast of new combined cycle plants is replaced by combinations of wind, solar and efficiency, the effect is a range of changes in gross regional product by 2020 from roughly minus 0.2 percent to plus 0.2 percent. It is clear that efficiency is the most beneficial to regional economic activity, perhaps partly because conservation tends to rely more on local supplies and labor than combined-cycle combustion turbines, although this could not be confirmed by RAND. Replacing 1,780 megawatts of new combustion turbines

with a combination of 2,800 megawatts of wind (a large amount of wind capacity is needed because of its low capacity factor) and 669 megawatts of conservation generates positive economic impacts under all but the most adverse assumptions (i.e. low natural gas prices, relatively modest technological improvements in wind cost, and higher conservation costs). Wind alone generates positive impacts only under the more optimistic assumptions in the RAND study, but would likely be negative under Council assumptions about natural gas costs. When 1,010 megawatts of solar is combined with 2,260 megawatts of wind and 535 megawatts of efficiency, the economic impacts are negative.

The scenario with the largest positive impact on the regional economy is building conservation to serve the DSI load. It results in increasing gross regional product by between 0.3 and .06 percent. Apparently, this assumes that the region could acquire over 5,000 megawatts of conservation at between \$15 and \$30 dollars per megawatt-hour. If I understand this scenario correctly, it differs from the first in that far more conservation is developed, and it is developed earlier than needed to serve load growth. The conservation is assumed to displace natural gas-fired generation. The conservation is probably assumed to be lower cost than combined-cycle plants and results in lower electricity costs, which stimulates the economy. However, RAND has not done a study of whether or not that amount of conservation is available at their assumed prices. In the Council's 4th power plan only 1,780 megawatts of cost-effective conservation was available at prices near \$30, and at \$15 less than 1000 megawatts would be available.

The effects of replacing the power generated by the Lower Snake dams also vary with the replacement alternative. Any positive economic effects are limited to around 0.1 percent of gross regional product. Replacement with combined cycle plants generates small gains in GRP in the first 10 years. Replacement with efficiency only has small positive effects under advantageous assumptions, and about equal negative effects with less advantageous assumptions. The advantageous assumptions include natural gas prices far in excess of even the Council's high forecast and a 1,250 megawatts of conservation at \$15 a megawatt-hour. When wind is combined with efficiency to replace the output of the dams it generates reductions in regional gross regional product of up to 0.3 percent.

RAND uses the costs and benefits of dam removal from the Corps of Engineers study with the exception of power system costs, which are separately evaluated in RAND's model. The Corps study also looked at the economic "impacts" of replacing dams with combined-cycle combustion turbines and got generally similar results. The cost of removing dams and building replacement facilities result in increased economic activity in the near term, but lower economic activity in the longer term due to more costly power supplies. In both studies, the effects are small relative to the entire regional economy.

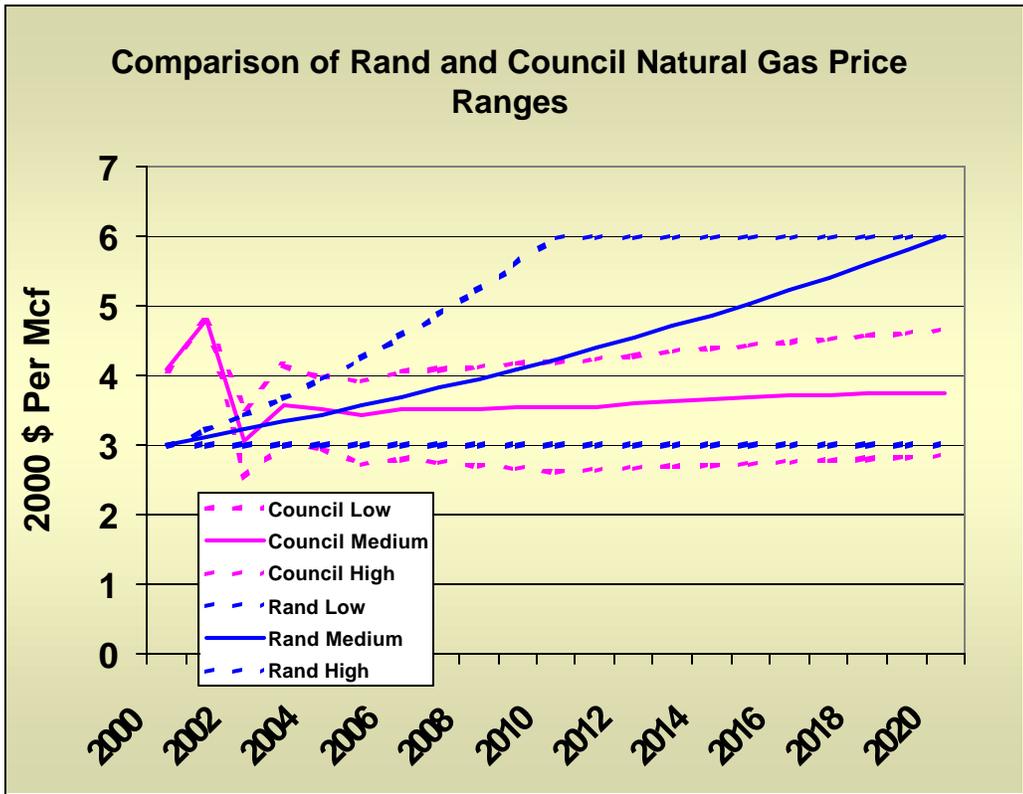
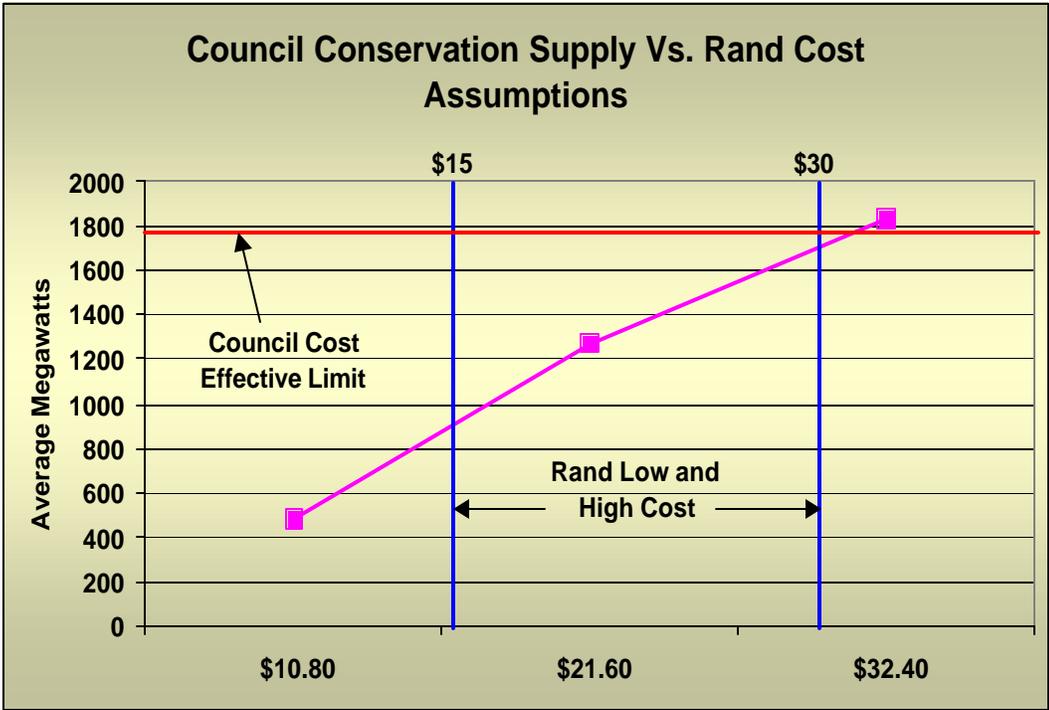
In the Corps study, the increased cost of electricity was the dominant effect of dam removal. In that study the costs recognized that in addition to paying for replacement facilities the capital cost of the dams would still have to be repaid by Bonneville and its regional consumers. It isn't as clear in the RAND dam removal scenario, or in the DSI load replacement scenario, how the stranded costs of the dams or other displaced generating resources are handled. I believe, based on RAND response to my questions, that the continuing capital cost repayment obligations are ignored, substantially understating the cost of replacing the dams.

The RAND study is placed in the context of diversifying the electricity supply of the Pacific Northwest. However, the actual value of diversity is not directly analyzed as it has been in the

Council's plans. The study recognizes that building gas-fired generation is a substantial diversification from the hydroelectric dominated system. The analysis scenario that looks at replacing some of the gas-fired growth with conservation and renewables is a valid diversification scenario that, although not evaluated directly by RAND, could have risk reducing benefits. It is difficult to see, however, how the dam removal scenario fits into this framework. Putting aside the debate regarding the impact of the four Lower Snake dams on salmon, which was not evaluated in the RAND report, it is difficult to see how eliminating a nearly costless resource, even though it depends on uncertain water conditions, could reduce expected system cost through risk diversification. The costs of dam removal need to be justified in terms of environmental and fish benefits, a case which has not been made by RAND.

RAND has seen these comments, and suggested some clarifications. They also asked that I attach a document that explains their approach and objectives for their study. That document is attached.

Attachment



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October 9, 2002

MEMORANDUM

TO: Council Members

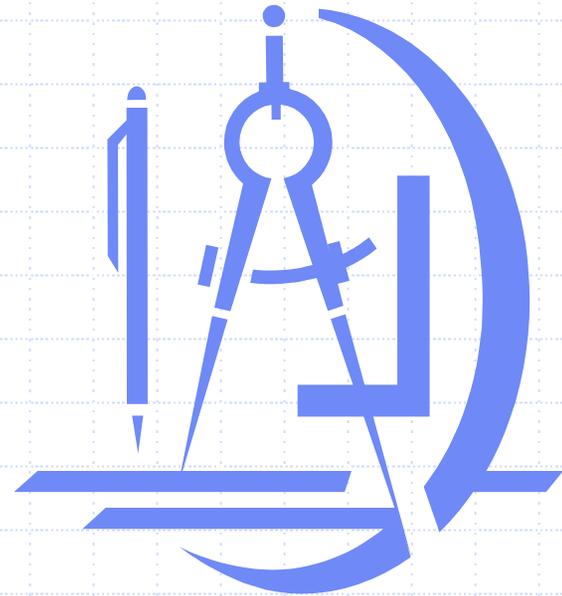
FROM: Dick Watson

SUBJECT: Briefing on "The future role of BPA" and the process for reaching a Council decision

One of the most important issues the Council will address over the coming year is the question of the future role of BPA. There are proposals for altering BPA's role more significantly than anything seen since the passage of the Northwest Electric Power Planning and Conservation Act in 1980. This briefing outlines the reasons why this issue has come to the fore now, the alternative proposals that have been put forward, a proposal for how the Council would evaluate the proposals, and the timeline and process for the ultimate decision.

The future role of the Bonneville Power Administration

Background Briefing
October 17, 2002



**Northwest
Power Planning
Council**

Overview

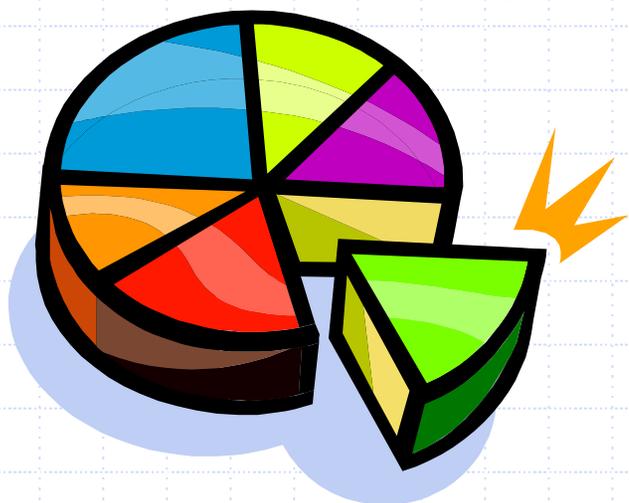
- ◆ Why this issue now?
- ◆ Goals/objectives/principles for a “redefined” BPA
- ◆ Summary of the Major proposals
- ◆ Evaluating the proposals
- ◆ Process

Why this issue now?

- ◆ Long-standing perception of threat to maintaining benefits of federal system for Northwest
 - Deferral of treasury payment would increase risk
- ◆ Concerns about presence of federal agency in competitive wholesale market
 - Competition with private sector
 - BPA's market influence
 - Exposure of BPA to market risk

Why now?

- ◆ Long-standing arguments over allocation or dilution of benefits of federal system
 - Public vs private vs DSIIs
 - Growing vs non-growing customers



Slice up the existing pie or make a larger, more expensive pie?

Why now? (2)

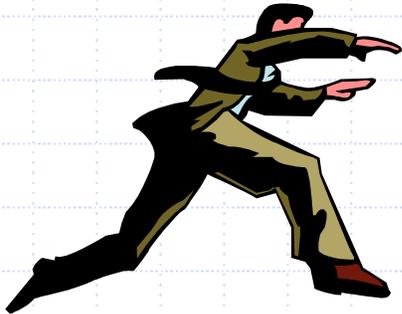
- ◆ Public customers don't have to buy from BPA but BPA has to serve them if they ask
 - Risk exposure for BPA/Treasury
 - Lack of clarity about who will have to serve future loads
 - Potentially sub-optimal decisions about new resources
 - ◆ By BPA
 - ◆ By Customers

Why now? (3)

- ◆ DSIIs seeking clarity about whether they will have access to federal power post-2006
- ◆ Interest of several of the region's governors
- ◆ Attempt to settle litigation over benefit to be provided to residential/small farm customers of IOUs

This is a **BIG DEAL!**

- ◆ Most significant changes to BPA's role in the region since the Power Act



- Big stakes for the region
- Needs to be more than a leap of faith

The question: How should BPA market electricity post-2006 to:

- ◆ Preserve or enhance long- term benefits to region?
- ◆ Endure over wide range of political and economic conditions?
- ◆ Reduce BPA's market influence and risk?
- ◆ Incur no additional risks for taxpayers or Treasury?
- ◆ Not increase and possibly reduce costs?
- ◆ Not require legislative changes, and minimize political risks?
- ◆ Fulfill BPA's responsibilities for:
 - conservation, renewables?
 - Fish and Wildlife?
 - Maintain reliability?
- ◆ Provide clarity regarding load responsibility after 2006?
- ◆ Clear economic signals for resource development?

The Proposals

- ◆ One comprehensive – the Joint Customer Proposal
- ◆ Three “limited purpose” proposals:
 - Public Interest Group – focused on fish and wildlife; conservation and renewables
 - Alcoa – focused on service for Alcoa
 - Steel Workers – service for DSI’s generally
- ◆ The base case – how BPA currently operates

Key Aspects of the Joint Customer Proposal (JCP)

- ◆ Long-term (20 years) contracts
- ◆ Existing Public Agencies choose one of two products: Slice **OR** Requirements
- ◆ New Public Agencies limited to Requirements product, pooled rate limited to first 75MWa
- ◆ Financial benefits for residential & small farm customers of investor-owned utilities
- ◆ Direct Service Industries receive an allocation
- ◆ Responsibility for conservation & renewables

JCP -- Slice Product

- ◆ Customers receive % allocation of output of FBS based on customer's 2007 net requirements and critical water
 - Receive their percentage of actual FBS output (with some flexibility)
 - Pay the same percentage actual costs of FBS
- ◆ Customers manage variation of slice cost and output and associated risk & benefits
- ◆ Responsible for meeting own load growth

JCP – Requirements Product

- ◆ BPA provides power needed to meet net requirements loads
- ◆ BPA manages variation of product cost and output and associated risk & benefits
- ◆ Rights, responsibilities & obligations similar to now
- ◆ BPA serves load growth unless customer acquires own resource
 - New resource costs could be pooled or bilateral
- ◆ BPA establishes rates

JCP -- Residential & Small Farm Customers of IOUs

- ◆ Receive financial benefits from the federal system to settle the Residential Exchange
- ◆ Based on 3300 MWa energy to R&SF customers, about half their existing residential load
- ◆ Value comparable to slice contract, varies as BPA's costs and gas prices change
- ◆ Specific min/max limits to benefits during the first five years

JCP -- DSI Service

- ◆ Up to 600 aMW BPA service to existing DSI smelters; 50 aMW to non-smelter DSI loads
- ◆ Active smelters provided base allocation of 100 aMW per plant, more under certain conditions
- ◆ DSIs taking BPA power and willing to provide new generation in region may qualify for BPA financial support for this generation

JCP-- Conservation & Renewables

- ◆ Goal: acquire cost-effective conservation and renewables.
- ◆ NWPPC develops conservation & renewables targets in Power Plan and portion applicable to BPA-served load
- ◆ BPA responsible for “regional activities” – market transformation, R&D, low income
- ◆ BPA establishes C&R budget in rate process
- ◆ Conservation & renewables discount mechanism with beefed-up RTF to incent utility action
- ◆ BPA backstop for failure to perform

JCP – Other issues

- ◆ Operations – Corps, Bureau, BPA continue to call the shots, including responding to reliability emergencies
- ◆ Fish and Wildlife – Obligations continue and are not altered by proposal
- ◆ Cost control – in return for long-term commitment to pay, customers want “meaningful and enforceable” participation in setting BPA expenditures

Public Interest Groups – Fish and Wildlife

- ◆ BPA operates and optimizes hydro system; slice customers have no flexibility with respect operation of their slice –
 - Remove incentives to violate salmon requirements
- ◆ Fish operations “hard constraints”
- ◆ Columbia River Treaty Tribes to “speak on behalf of salmon” with authority = federal government in all river operation decisions
- ◆ Diversified energy portfolio to “lessen pressure” on hydro generation

Public Interest Groups – Conservation and Renewables

- ◆ Very similar to JCP but:
- ◆ Meet ALL load growth with C&R
 - All cost-effective conservation per Council (MWa)
 - Balance of needed power from Renewables, MWa target with above-market \$ cap
- ◆ Utility targets based on total load, not just BPA share
- ◆ Direct BPA funding to weatherize 1/20th of low-income unweatherized homes per year
- ◆ More specific on, mechanisms, performance, accountability, flexibility, target adjustments, local/regional splits

Alcoa

- ◆ BPA should act as Power Act intended
- ◆ Supply Alcoa up to 700 aMW (Intalco and Wenatchee)
- ◆ Sell at melded rate
- ◆ Alcoa will supply cost-effective power to BPA at cost (plus return on investment)
 - BPA does not have to pay if Alcoa does not satisfy obligations

Steelworkers

- ◆ Minimum 100 aMW for operating smelter contingent on:
 - Up to 6 months compensation for workers at curtailed plants
 - Companies demonstrate long term viability with outside power supplies
- ◆ 5 year credit support for companies developing resources, incl. Renewables
- ◆ Modulation agreements (reducing peak power requirements) and interruptibility during droughts to protect fish
- ◆ Support for salmon recovery, investment in conservation and renewables

Evaluating the alternatives

Goal/ objective	Base Case	JCP	Public Interest	Alcoa	Steel- workers
<ul style="list-style-type: none">•How do the alternatives compare with the Base Case (status quo) in achieving the goals and objectives?•What is the relative importance of the different goals and objectives					

What's the process and timeline for deciding?

