

PNWCC REPORT Council



NORTHWEST POWER AND CONSERVATION COUNCIL June 8-9, 2010

Meeting in Missoula, the Council got the lowdown on Treasure State utilities' concerns from Bill Drummond of the Western Montana Generating and Transmission Cooperative. BPA's Greg Delwiche previewed some policy headaches on the horizon, the Idaho National Laboratory held forth on the future of nuclear power in the Northwest, and the Regional Technical Forum looks headed for a makeover. Next Meeting: July 13-15 in Portland.

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FOR OPENERS

Council Chair Bruce Measure bid farewell to Karen Hunt, BPA's liaison to the Council, who is retiring, and thanked her for her service. He also acknowledged that Greg Delwiche, BPA's vice-president for environment, fish and wildlife, is moving on to the job of senior vice president for power services.

THE AGENDA



Drummond Tells It Like It Is

I appreciate the opportunity to update you on the concerns of public utilities these days, Bill Drummond, manager of the Western Montana Generating and Transmission Cooperative, told the Council. He said WMG&T's members are full requirements customers of BPA.

BPA customers are concerned about the impacts of rate increases combined with upcoming changes in rate design, Drummond said. We understand that rates could go up between 12 and 20 percent, and "that's a significant increase," he stated.

If BPA has burned through a large portion of its reserves, the question is whether it should rebuild them by raising rates immediately, or put in place a cost recovery adjustment mechanism that would trigger if the situation gets worse, Drummond said. That's the kind of tradeoff BPA and its customers will be discussing – it's a huge issue, he added.

The next rate case will be the first to use tiered rates, Drummond noted. The new rate structure employs a completely different approach, and customers are concerned about several features, he said. For example, the demand charge, Drummond stated. Initially, it will be about 4 percent of a customer's bill, but I could envision, by 2015 or 2020, it could be 20 percent, he said. That's one of the reasons utilities will focus their efforts on energy efficiency, according to Drummond.

There is also the load-shaping charge, which he termed "an odd animal." The load-shaping charge means there will be a huge seasonality in a customer's bill, Drummond said. Customers are just starting to struggle with this combination of a large rate increase and a change in rate design, and "it's sort of scary," he told the Council.

The price signals from BPA's tiered rates are making utilities think about how they should structure their own rates, Drummond said. There is the question, for example, of what happens if a utility gets a new large customer and has to buy a lot

more Tier 2 power, he explained. Should the utility charge the new customer the cost of the Tier 2 power or try to meld the cost into overall rates? And if it does charge the Tier 2 rate, would that have a dampening effect on new economic development? Drummond added.

Everyone's a Believer Now

The Council's new power plan, the Tier 2 price signals, and state renewable portfolio standards are all affecting utility views of energy efficiency, Drummond said. "If they weren't true believers before, they are now," he stated.

Energy efficiency poses specific challenges to utilities in rural areas like western Montana, Drummond pointed out. One in particular is summed up by "windshield time kills cost-effectiveness," he said. We've been working on a program that would have energy audits conducted by people who come out in a big truck, stocked with insulation, appliances, and water heaters, Drummond explained. The idea is to do as much as you can during one trip to cut down on "windshield time," he added.

Another challenge is that while Montana has a really good building code, it is not enforced, Drummond stated. It's basically voluntary, and it's not getting the job done, he said. We expect to address this problem during the upcoming legislative session, Drummond noted.

Customers had hoped to see some changes in the way BPA operates conservation programs, and to have the approach be less "top-down" and allow for more local control, he said. We argued that tiered rates would change how utilities view energy efficiency and that BPA would not need to

employ a "restrictive approach," but we lost, Drummond stated.

He called some of the Council's comments on BPA's proposed post-2011 conservation program "disappointing." Drummond questioned support for BPA's use of 42 percent as public power's share of regional energy efficiency. He said the idea of beefing up BPA's backstop role in conservation is "offensive" because it assumes utilities will be bad actors. We agree that doing more energy efficiency reduces costs and risk, but we are concerned that not all the things utilities are doing are being counted and credited against the Council's targets, according to Drummond.

Whither RTF?

He reported on the evaluation of the Regional Technical Forum (RTF) performed by a consultant hired by the Northwest Energy Efficiency Taskforce (NEET). The consultant's report found the RTF has provided value to the region and that most of the people interviewed thought RTF was "essential to the region meeting its conservation goals," Drummond said. But the RTF's current structure may not be appropriate for the demands that will be placed on the organization in the future, he noted. There are also questions about who the members of the RTF represent, Drummond said.

The report recommends, among other things, initiating a process on RTF stakeholder definition and having a multiyear work plan, he continued. I view this as "a maturation of RTF," and that may require an upgrade of its structure, according to Drummond.

At the next NEET meeting, I'll propose a process to resolve some of these RTF issues, patterned on the region's efforts to deal with wind integration and adequacy, he said. I'll come back to you in July with a plan on how to move forward, Drummond told the Council.

Not only does the RTF have a reputation for great technical work, but they do it all on a budget of \$1 million or less, said Tom Karier. If we had that kind of efficiency on fish and wildlife (F&W), we'd be pretty happy, he added.

Karier asked if conservation should be part of Tier 1 or 2 and expressed the opinion that Tier 2 "could go to zero," which could undermine the region's progress on efficiency. Customers think certain costs should be in Tier 1, such as the RTF, the Northwest Energy Efficiency Alliance, and low-income weatherization, replied Drummond.

When you get to utility incentives and how they are funded, that's where there is a difference of opinion between BPA and customers, he said. We wanted the conservation program to have symmetry with BPA's approach to resource acquisition under tiered rates, but we lost, Drummond added.

Karier urged him to look to the long term. There might be a way to give more responsibility for conservation to utilities in future rate cases, he said.

Rhonda Whiting asked Drummond if he anticipates pushback from the legislature on efforts to get the state's building codes enforced. "Oh yes," he replied. The building industry has argued that could discourage new construction during a recession, Drummond said.



The ABCs of the RTF

Staffers Tom Eckman and Charlie Grist updated the Council on the past, present, and possible future of the RTF. In July, we'll come to you with recommendations based on NEET's evaluation of the RTF, so we wanted to give you a refresher on the RTF before you consider modifying it, Eckman noted.

He said he expects the RTF will be used heavily by Washington utilities covered by I-937, which will have to report conservation savings annually to the state auditor. One of the RTF's principal benefits is providing centralized technical review of energy-savings data, assumptions, and measures so individual utilities don't have to do that themselves, and that has resulted in cost savings for utilities, Eckman pointed out.

He noted that recent RTF meetings have been very well-attended, sometimes with up to 100 in the audience. "It's amazing how many nerds there are in the region," Eckman said.

RTF serves a really important function in the region, stated Measure. As you adapt to new roles and greater complexities, will you need additional expertise? Dick Wallace asked. Yes, we have solicited contractors to support targeted research and analysis, and we had to have a bigger budget for that, replied Eckman. Over time, the mix of things the RTF deals with changes, added Grist. In the beginning, it was mostly residential measures, but now we are dealing with commercial and industrial measures and behavioral factors, he noted.

Melinda Eden asked about RTF's work to launch new projects. We have hired a contractor to add to the "package of tricks" people can use to do conservation, Eckman said. The contractor will look for new measures and work with utilities on simplified measurement protocols, he stated. We are also about to launch a small utility conservation initiative, Eckman added.



BPA Estimates Fish Costs and Risks

Given the poor water conditions and the recession, we will likely end up in the red by over half a billion dollars by the end of FY 2010-2011, Greg Delwiche told the Council at the outset of a presentation on BPA's proposed F&W budget for FY 2012-2013. When the Biological Opinion (BiOp) and the Columbia Basin Accords were signed, BPA kicked off an Integrated Program Review, which explains how they fit with our budget, he noted.

Delwiche said BPA's projected costs for the F&W direct program are \$226 million for FY 2010-2011 and \$252 million for FY 2012-2013. Those compare to actual spending of \$155 million in FY 2007-2009, he noted.

Delwiche explained how BPA is building its FY 2012-2013 F&W budget, noting new Research, Monitoring, and Evaluation (RM&E) requirements for the BiOp's Adaptive Management Implementation Plan (AMIP) will cost an additional \$1.3 million, as well as new costs of \$1.7 million per year for the Shoshone-Bannock Fish Accord and \$500,000 for the Washington Estuary Accord. Completing a previously negotiated Accord with the Kalispell Tribe

will likely increase the budget by about \$960,000 a year, he said.

Delwiche explained other risk factors, such as the fact Accord provisions allow for unspent dollars to be moved into future years. At some point, Accord spending levels in excess of base budgets could occur, possibly starting in FY 2012-2013, he noted.

Are there any more Accord MOAs in the making? Whiting asked. We've been approached, but nothing is close to being finalized, replied Delwiche.

The treatment of inflation has been a sensitive issue, he said. The Accords have a 2.5 percent a year inflation-rate commitment, and BPA is using a 0.9 percent inflation rate for BiOp non-Accord and general funds, Delwiche explained.

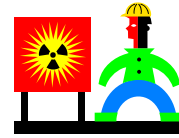
For the Accords, is 2.5 percent applied automatically, or could a lower percentage be used, depending on the real inflation rate? Eden asked. The 2.5 percent is hard-wired in, replied Delwiche. My concern is that we are creating different classes of projects within the F&W program, stated Eden. The Council didn't ever contemplate that, she added. Plus, it sounds like you have not closed the door on new MOAs, she added.

Another risk factor is that several major hatchery facilities, such as Leavenworth, Entiat, and Winthrop, are in a deteriorated condition, Delwiche noted. The region needs "to roll up its sleeves" and consider how the capital needs of these facilities will be dealt with, he said, predicting "there'll be way more to come on this issue."

Hatchery reform will cost money – whether it's from Congress or ratepayers, said

Wallace. This is a real risk -- we have aging hatcheries that will need new dollars, and we may not have them just when we need to get hatchery reform done, he stated.

The Nuke News



"The nuclear renaissance in the United States has started," Phil Sharpe of the Idaho National Laboratory told the Council. Driving renewed interest in nuclear energy are electricity demand, concerns about greenhouse gas emissions, technology advances, regulatory improvements, and new legislation, he said. Thirty new reactors are now under consideration, and more will be needed, according to Sharpe.

The proposed locations for new plants are generally in the southeast and on the east coast, he said. A new plant is being proposed near Hammett, Idaho, Sharpe reported. Another plant proposed for the Hells Canyon area is now off the table, he said.

Currently, 104 reactors in 31 states supply 20 percent of the nation's electricity needs, Sharpe stated. The next generation of nuclear designs have cost and safety benefits and can produce shorter construction and licensing schedules, he said. Small modular reactors are scalable and can be a better fit to the electrical grid in many places, Sharpe noted. He pointed out that NuScale Power, based in Corvallis, has a 45-MW reactor design, and it will be the first company to take this technology to the Nuclear Regulatory Commission.

Elsewhere in the Northwest, the Columbia Generating Station is pursuing a 20-year licensing extension, to 2043, Sharpe reported. The French company Areva has proposed building a new enrichment facility

in Idaho Falls, he said. Public acceptance in the Northwest is likely very dependent on addressing water issues, additional ratepayer costs, and carbon emission pricing, Sharpe concluded.

Bill Booth asked if there is any initiative in Congress to look at the Carter-era ban on reprocessing. The Administration has a blue-ribbon commission that will address that, Sharpe replied. Jim Yost asked about water savings with new nuclear technologies. Sharpe talked about the use of dry cooling and other technologies available, but acknowledged that for nuclear energy, cooling issues "are complicated on the regulatory side."



Bull Trout on the Road to Recovery?

Ted Koch of the U.S. Fish and Wildlife Service (USFWS) gave a presentation on the recovery of bull trout in the region, noting the species was listed under the Endangered Species Act (ESA) in 1998. Bull trout, he said, are the best indicator of healthy cold-water habitats and the best aquatic indicator of the effects of climate change.

Koch described conservation accomplishments in Idaho and Montana, noting for example, in the Upper Salmon River area, over 600 projects have been carried out since 2006. He explained efforts to reconnect the Clark Fork River to allow bull trout access, including breaching the Milltown Dam and installing fish ladders at Thompson Falls Dam. Avista, which has two dams on the lower Clark Fork, has agreed to install fish ladders and carry out other mitigation at those facilities, Koch said. Avista's relicensing agreement

is "resulting in significant conservation on the lower Clark Fork River," he added.

A draft recovery plan was completed in 2002, and we issued critical habitat rules in 2005 and 2010, Koch noted. We intend to finalize the recovery plan in 2011 or 2012, he said.

Bull trout are doing pretty well in some parts of the range, and not in others, Koch pointed out. Delisting of bull trout in some parts of its range is achievable, and we hope the Council will help us in our recovery efforts, he stated.

Booth said Idaho has had success with bull trout conservation. Our state's biologists have said Idaho has over 10 million bull trout now, he noted. We are discouraged by your request for so much critical habitat in our state, Booth said.

We want you to set a reasonable target for Idaho, and your critical habitat request seems extreme, he added. We are asking you to come up with a recovery plan for Idaho that takes our success into account, Booth stated. How many more bull trout do we need over what we have, and when can we start the delisting process in our state – we want to know where the finish line is, he said.

On critical habitat, USFWS is trying to figure out what is right, Koch replied. We proposed broadly in Idaho because if you fail to propose something, you can't go back and include it later, he said. The comments we've received from Idaho agencies have been helpful, Koch added. We plan to re-engage with Idaho and Montana on recovery planning in the coming months, and we will try to come up with an answer to the question of "how much is enough?" he said.

Karier asked if USFWS has abundance numbers and if they are needed for recovery. We don't have good abundance numbers for most parts of the range, replied Koch. There's a need for funding to learn about bull trout use in some areas, including around the mainstem dams on the Columbia, he noted.



Tiptoeing through the Supplemental BiOp

Ritchie Graves of NOAA Fisheries presented an overview of the 2010 supplemental BiOp, which incorporates new science and the AMIP. New information in the supplemental includes data on the effects of climate change on salmon and steelhead, new adult return data, as well as updated data on cormorant predation, invasive species, and toxics, he said.

The AMIP has been added into the BiOp as a new Reasonable and Prudent Alternative (RPA) measure, called RPA Action 1A, Graves noted. The AMIP includes six new actions to address key uncertainties and climate change, he said. The AMIP actions include: a report by the Corps on the use and location of adult salmon thermal refugia in the lower Columbia and lower Snake rivers; a study by the Corps at The Dalles and John Day dams to determine if PIT-tag detectors can improve inter-dam adult survival estimates; new reports on water temperature data; and requirements for the action agencies to consider invasive species and site-specific toxicology issues, and to assist NOAA with studies on adverse hatchery effects on listed fish species.

Graves said the agencies are preparing records of decision and working on a final 2010-2013 implementation plan. Sarah McNary of BPA said they have offered to

give a presentation to the Council on that plan, which she said is a large component of the Council's F&W program.

MERR or Less?



Wallace reported that 21 entities submitted comments on the Council's draft Monitoring, Evaluation, Research and Reporting (MERR) report. We will sort the comments into three categories, he said: things to address between now and August 1, so we can use them in our RM&E categorical review; things to do between the categorical review and our next F&W amendment process; and things that will arise during the F&W amendment process.

The Council has spent a lot of money on RM&E, but "we do not always get the results we need," Karier said. Forty percent of our budget goes to RM&E, he noted. We need to ensure the collection of data for the Council's high-level indicators and the BiOp and to address the effectiveness of projects in our F&W program, he stated. But we need to try to move to a more reasonable size for this budget and be clear about what we are trying to do, Karier said. I'm not suggesting we take money away from the F&W budget, but that we redeploy money from RM&E to on-the-ground projects, he added.

Karier recommended the Council consider reprogramming up to 10 percent of the RM&E budget to on-the-ground projects by FY 2012 and possibly an additional 10 percent by 2014 and another 10 percent by 2016.

I disagree with what Tom is proposing, said Eden. The definitions that get us to the estimate that 40 percent of our budget is RM&E are BPA's, and they aren't

necessarily correct, she stated. We haven't elevated the high-level indicators to a place above other goals, Eden added.

I have a problem with arbitrarily picking numbers, and I am opposed to telling the Independent Scientific Review Panel, the Independent Scientific Advisory Board, and the region to cut 10 percent for the next three years from our evaluation work, she stated. I'm talking about re-allocating, responded Karier. I agree that arbitrarily cutting or capping would be a mistake, he said, "so we're in agreement."



Public Hearing: Thoughts on the Bitterroot

Barbara Hall of the Clark Fork Coalition urged the Council to adopt the Bitterroot Subbasin Plan. I appreciate the Montana Council members' encouragement of the development of the Bitterroot and Blackfoot subbasin plans, she said. Hall thanked the Council for allowing the plans to go forward outside the Council's regular subbasin process. These plans will be the catalyst for private and public funding, she said.

Lynn Ducharme of the Confederated Salish-Kootenai Tribes said bull trout are a significant cultural species for the tribes that can be helped through the subbasin

plans. She said the tribes would be looking for opportunities for mitigation.

Charles Pace, an Idaho citizen, questioned whether Council members are encouraging parties to go after ratepayer funding in connection with the plans. I applaud what's going on in the Bitterroot, but it's not something ratepayers should pay for, he said.

END NOTES

F&W Spending Report Hits the Streets.

The Council approved release of the draft annual report to the governors on BPA's F&W Expenditures for public review. The deadline to submit comments is July 9.

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Council 2010 Calendar

July	13-15	Portland
August	18-19	Spokane
September	21-23	Bend
October	13-14	Portland
November	9-10	Portland
December	14-16	Portland