

## NORTHWEST ISSUES – MONTANA FOCUS

POWER SUPPLY

REGIONAL DIALOGUE -- BPA, its customers, and regional stakeholders are engaged in a policy formation process known as the Regional Dialogue to determine how low cost power from the Federal Columbia River Power System (FCRPS) will be marketed in the future. BPA will soon issue a Record of Decision for the initial phase of this process covering the 2007-2011 period. Discussions about the long-term (20-year) future are underway and will lead to a formal BPA policy proposal in the summer of 2005, with a public comment period to follow and a final policy decision to be issued in early 2006. The long-term proposal is expected to include draft policies with the following implications for Montana:

- Policy proposals that will guide development of new 20-year federal power sales contracts to be offered to eligible utilities (e.g., in Montana this includes rural electric cooperatives, Mission Valley Power, City of Troy)
- Policy proposals that define service to new public utilities that qualify to purchase federal power under BPA's Standards for Service (e.g., potentially MT cities seeking to purchase the NorthWestern Energy (NWE) system)
- Policy proposals defining the amount of low cost federal power each BPA customer can expect to purchase from the FCRPS at BPA's lowest-cost rate, and conversely, the amount of power the customer needs to acquire from other sources or from BPA on an individual basis, likely at higher cost (Specific power rates will continue to be determined in periodic rate cases throughout the contract period.)
- A policy proposal on how benefits of the FCRPS that BPA provides to small farm and residential customers of investor-owned utilities will be calculated [The amount of benefits for 2007-2011 is already established. NWE has been receiving between \$2 and \$3 million per year during the 2001-2006 period.]
- A policy proposal concerning long-term benefits to direct service industrial (DSI) customers such as Columbia Falls Aluminum [A regional meeting on the amount and structure of benefits BPA will provide to DSIs for the next rate period is planned for February 2005.]
- Policy proposals on how BPA will continue to support energy conservation and development of renewable energy sources [BPA has adopted a strategic objective that calls for meeting its share of regional targets set by the Northwest Power and Conservation Council's (NWPCC) 5<sup>th</sup> Power Plan. A BPA proposal on FY 2007-2011 conservation is expected to be issued in March 2005.]

RESOURCE ADEQUACY – As one of the follow-up actions to their 5<sup>th</sup> Power Plan, the NWPCC has agreed to reinstate their Power Supply Adequacy Forum with the dual goals of gaining regional consensus on a metric that would be used to measure resource adequacy and investigating mechanisms to implement a Regional Resource Adequacy Standard. BPA will be working with the Council on an outreach effort this summer to try to achieve regional consensus on a metric that would provide a consistent approach for all

NW utilities with load serving obligations to determine whether their portfolio of power supplies is sufficient to serve their loads. The sustainability of the long term Regional Dialogue in defining and limiting BPA's future load obligations is linked to the success of this effort because BPA needs assurances that NW utilities will acquire sufficient resources to meet their loads if BPA is to reduce its power acquisition role.

**RENEWABLE ENERGY** – Montana wind developers invited BPA to several meetings in 2004 to explain how BPA is fostering markets for renewable resources. In the past year BPA created two new power integration products to help retail utilities bring wind energy to market. These products use the storage capacity of the FCRPS to back up and smooth intermittent energy from wind. On the transmission side, BPA is developing a conditional firm product to provide increased and more efficient use of transmission paths where rights to firm capacity are sold out. BPA and Northwestern Energy are discussing coordination options that may help reduce certain transaction costs and thereby facilitate the marketability of Montana wind projects. [A workshop on the conditional firm product is planned for March 2005.]

**POWER FUNCTION REVIEW** – BPA imposed a large power rate increase in 2002 which most Montana customers were largely able to avoid due to specific exemptions in contracts they signed before the 2001-2006 rate period. On January 25, 2005, BPA launched a public review of nine major program areas whose costs go into power rates. This review responds to the high level of interest of customers, constituents and Tribes. The programs include fish & wildlife, energy conservation and renewables, along with several other categories associated with managing the power system and associated debt. BPA will issue a report to the region later in 2005 on the comments received and identify program funding levels that will be carried forward into the FY 2007-09 power rate case proposal. NWPPC members have been invited to represent the states in the Power Function Review at a series of meetings in Portland from January through late April, 2005. Other state policymakers are also welcome to attend.

### **INDUSTRY RESTRUCTURING**

BPA has been involved in a 10-year effort with other NW transmission owners, including NWE, and stakeholders, including public power representatives, state utility commissions and MT Consumer Counsel to define an approach to unified transmission operation and planning. The goals are to enhance regional reliability and reduce costs to consumers. Developmental bylaws were adopted in December 2004 for a new organization named "Grid West" that may fulfill these roles. Grid West will need participation by BPA and at least two other NW transmission owners to be viable. However, while there is general regional recognition of problems with existing transmission management, there is significant controversy over whether Grid West or a different model would best meet the goals. An entity independent of individual transmission owners and market participants is likely necessary to define the need for new transmission in the region and allocate the costs, get the most out of existing transmission capability, make regional transmission available fairly and efficiently, and maintain reliability into the future. Further design work through the spring of 2005 is needed to estimate the costs of Grid West, in order to

assess whether the benefits exceed the costs and to resolve other key concerns. These concerns include preservation of existing transmission contract rights and assurances that the Federal Energy Regulatory Commission (FERC) will not be able to require changes to Grid West that are not supported in the Northwest. [The next key decision will occur in the fall of 2005 on whether to proceed with the election and seating of an independent Grid West Developmental Board that would be charged with negotiating transmission operating agreements with participating owners over the next two years. A final decision to make Grid West fully operational would not be made earlier than late 2007.]

## TRANSMISSION

Transmission paths linking Montana to the rest of the Western Interconnection are generally constrained, with little or no remaining long-term firm capacity to accommodate substantial new generation. Although BPA has invested over \$1 billion over the last 4 years in transmission projects to address existing reliability and congestion problems on its system, overall investment in new transmission by the electric industry has lagged.

## INFRASTRUCTURE

- When a transmission-owning utility receives a request for new service over a path that lacks the necessary firm capacity, the request is placed in a "study queue" that is managed on a first-come, first-served basis. After two stages of engineering analyses, an agreement is offered to construct upgraded or new facilities that will accommodate the request. In situations where interconnection of new generation is causing the need for new facilities, the generation sponsors are required to finance the costs, and in exchange receive credit for transmission service. BPA has two requests for transmission service from proposed new Montana coal generation projects, Bull Mountain and Great Northern, and is currently working with NWE and the project sponsors to determine how best to proceed. This effort is complicated because Bull Mountain has not filed a request with NWE, but has first priority in BPA's study queue. Great Northern, on the other hand, is in NWE's study queue and second in BPA's queue.
- The following sub-regional transmission planning and assessment efforts have or will generally examine transmission required to export new Montana generation. These planning studies are not a substitute for detailed engineering and transmission siting analyses required for specific generation projects. They include:
  - The Northwest Transmission Assessment Committee (NTAC) of the Northwest Power Pool (NWPP), which will have a draft study of MT-Northwest transmission completed in late 2005
  - The Rocky Mountain Area Transmission Study (RMATS), which was led by the Governors' offices of WY & UT, with participation by MT, ID & CO; the first phase was completed in the fall of 2004 and included several scenarios of generic new MT coal and wind generation and

- recommended transmission to accommodate successively higher levels of generation
- The Pacific Northwest Economic Region (PNWER), which has several Montana legislative members, and recently received a grant from USDOE to create a PNW Bi-National Regional Energy Planning Council covering both the US and Canada and work on least cost corridor planning and unified permitting across jurisdictions and related technical assessments

## TRANSMISSION ADEQUACY STANDARDS

NW utilities, including BPA, and other stakeholders are beginning work (January 2005) under the auspices of the NWPP's Transmission Planning Committee to draft transmission adequacy standards that will apply in the geographic footprint of the NWPP. These standards are intended to be complementary to Resource Adequacy Standards (as described above) and are considered critical for determining how much additional transmission is needed, the solutions that will be deployed to address the needs, and the criteria that will guide prudent investment decisions until such time as Grid West or another similar regional entity is operating and responsible for this function. State utility commissions and other key stakeholders are invited to participate. Draft standards will be produced by the fall of 2005.

## **FISH & WILDLIFE ISSUES;**

RIVER OPERATIONS -- Libby (4.9 million acre feet) and Hungry Horse (3.5 million acre feet) are key storage projects in the FCRPS. The primary drivers of operations at these projects are, flood control, fish operations and power generation. Fish operations have been controversial in Montana since these projects were tapped to provide water for salmon flow augmentation in 1993. Under the direction of NOAA Fisheries in successive Biological Opinions (BIOP) for anadromous fish listed under the Endangered Species Act (ESA), these projects are expected to draft water in the top 20' of full pool for flow augmentation during July and August.

Since flow augmentation began, Montana has argued, with considerable support from local officials and citizens in NW Montana, that the contribution to salmon recovery of these operations is biologically trivial but the impacts to resident fish and recreational resources in Montana are significant. In 1994 the NWPCC adopted specific operational recommendations for Libby and Hungry Horse called the Integrated Rule Curves. These have not been implemented due to the BIOP recommendations. In 2002 the NWPCC approved a new Fish and Wildlife Conservation Plan that included Mainstem Amendments which called for reduced summer drafts from Libby and Hungry Horse (10' vs. 20') and protracting the drafts through September to reduce impacts in the Flathead and Kootenai Rivers. The Mainstem Amendments have not been implemented to date. The debate has focused on the ability to measure impacts to listed stocks. The regional Independent Science Advisory Board recently reviewed flow augmentation and supported the technical merits of the NWPCC's recommendation. Summer river operations in 2005 present the next opportunity for addressing this issue.

Additional river operation issues include the following:

- Libby operations create hardship on the British Columbia part of Lake Koocanusa (poor access and dust storms) and have received significant attention from Kootenai East Member of Parliament Jim Abbott who has worked directly with Montana Governors seeking changes to benefit the state and BC. He is likely to be contacting Governor Schweitzer soon.
- Flathead Lake is under FERC purview due to Kerr Dam licensing conditions. The lake is currently the subject of an EIS and Draft Drought Management Plan. Alternatives in these documents look to Hungry Horse as a source of water to aid in meeting lake levels and in-stream flow minimums. Hungry Horse is also the subject of HJR 3 in the 2005 Montana Legislature, urging negotiations for availability and cost of water stored in the reservoir for irrigation and other uses. These processes have implications for all the other existing uses.
- The U.S. Army Corps of Engineers (COE) recently modified its flood control requirements under an interim agreement and is preparing an EIS to be released later in 2005. The modified approach is known as Variable Flow or VAR-Q and has been supported by Montana. This operation results in smaller flood drafts and slightly higher spring flows in average and below average water years but no change in high water years.
- The Technical Management Team (TMT), the Implementation Team (IT) and Federal Executives (comprised of COE, Bureau of Reclamation, and BPA) make up a three-tiered decision-making process and primary forum for debating river operations in the context of BIOP implementation. The TMT has representatives from the states, some tribes, and the federal agencies and annually writes a water management plan to implement the BIOP for listed anadromous fish. The TMT meets weekly during the spring and summer and as needed during the fall and winter to discuss and recommend hydro-system operations. Unresolved issues are elevated to the IT and if needed, to the Federal Executives for resolution. Montana has been effectively represented in these Portland-based processes by Jim Litchfield, an individual widely considered a regional authority on fish and power issues.
- The BIOP for anadromous fish was "remanded" back to NOAA Fisheries in 2002 as a result of a lawsuit. This led to a new BIOP that NOAA released in November 2004. A 60-day notice of intent to sue is now active on the new BIOP. Montana has been represented in these legal proceedings by attorneys from DNRC and DFWP.

RESIDENT FISH ISSUES -- BPA is participating in or monitoring the progress of the following resident fish evaluations, along with other federal and state agencies, tribes and interested stakeholders.:

- Bull trout (listed under the ESA as threatened in 1998) are currently the subject of a 5-year status review. The primary petitioners in the listing process and the lead litigants for bull trout recently released comments in that process stating that bull trout populations are far from stable or leaning toward recovery. In 2004

Montana re-opened harvest (for the first time in 10 years) for bull trout in Libby and Hungry Horse reservoirs, which are home to some of the strongest populations of bull trout in the region. In contrast, there are still harvest bans on river populations.

- Kootenai River White Sturgeon (listed under ESA as endangered in 1994) are the subject of new ESA, Section 7 consultations. These consultations will address flow requirements from Libby Dam, and habitat issues. New operational recommendations will be vetted in 2005.
- Burbot were petitioned for listing in the Kootenai River. The U.S. Fish & Wildlife Service denied the petition stating that the fish are circumpolar in distribution and listing was not warranted. The population in the Kootenai is now estimated to be between 50 and 200 individual fish. The Kootenai Tribe of Idaho, with support from the Idaho Congressional delegation, is leading an effort to draft a Conservation Agreement to institute actions to assist in the recovery of this population. Montana may be asked to be a signatory to this agreement in 2005.
- Westslope Cutthroat Trout were also petitioned for listing and denied by the USFWS. Litigation is now underway challenging that decision.

WILDLIFE ISSUES -- Montana signed a unique agreement with BPA in 1986 creating a trust fund for wildlife mitigation to address impacts from the construction and inundation of Libby and Hungry Horse Dams. The MT DFWP has managed the trust over the ensuing years and essentially achieved the mitigation goals enumerated in the trust agreement. However, the Confederated Salish and Kootenai Tribes were not a party to the trust agreement. While the trust has supported some projects on reservation or treaty lands, the Tribes would like to obtain funding for additional wildlife mitigation. This is a topic of on-going discussion.