

2017 Report to Montana Legislature and Electrical Cooperatives

Background and Overview

In 1980, Congress passed the Northwest Power Act (Act), authorizing the states of Montana, Idaho, Oregon, and Washington to form the Council, an interstate compact, giving the region a greater voice in how we plan our energy future and manage natural resources in the Columbia River Basin. The Act requires the Council to develop, with broad citizen participation, a regional power plan and fish and wildlife program. A critical function of the Council is to ensure greater transparency and public accountability for decision making by the Bonneville Power Administration (BPA) in managing the Columbia River Basin.

The Council develops a 20-year power plan, which it revises every five years, to ensure the Northwest of an economic, efficient, and reliable power supply. The Act directs the Council to give priority to cost-effective energy efficiency, followed by cost-effective renewable resources, when developing the plan. It includes several key components, including an electricity demand forecast, electricity and natural gas price forecasts, an assessment of the amount of cost-effective energy efficiency that utilities can acquire over the life of the plan, and a least-cost generating resources portfolio. The plan guides BPA's resource decision-making to meet its customers' electricity load requirements, and the Council is required to approve any new BPA energy resource acquisition greater than 50 average megawatts acquired for more than five years. Other federal agencies use the plan in their decisions as well.

The Council revises its fish and wildlife program every five years as part of the power plan. The program seeks to mitigate the effects of hydropower dams on fish and wildlife and focuses on habitat restoration. It sets the policy directive for mitigation activities based on recommendations from state, federal and tribal fish and wildlife managers, and recommends actions for funding by BPA. Target species include salmon, steelhead, and resident fish like bull trout and westslope cutthroat trout in Montana. It also recommends river flows at and between dams in the Columbia River system to improve fish production, migration, and survival. The program, with the help of Montana Council Members, has been key in stabilizing operations at Libby and Hungry Horse Dams here in Montana. These changes have provided recreational and economic benefits to the local communities by stabilizing the rivers below the dams and keeping the reservoirs higher during the summer months when they are used the most.

BPA Rates and Budgets

Every two years and through a public process, BPA reviews its spending levels through the Integrated Program Review and Capital Investment Review. This includes a review of spending associated with fish and wildlife. BPA then prepares an initial rate proposal, and initiates a formal rate proceeding, with an evidentiary hearing process. The BPA Administrator then issues a final decision, establishing BPA rates to be charged for power and transmission services (BPA revenues are provided by several sources, including transmission services, ancillary power services, secondary power market sales, and sales to Preference Customers).

Rates must be set so that BPA will be able to recover its total costs, including obligations to repay its debt to the Federal Treasury (for example, as much as one third of BPA's costs include legacy debts from nuclear plants that were never built). After the Administrator's Final Record of Decision, BPA then files its rates with the Federal Energy Regulatory Commission for confirmation and approval.

By federal law, public power entities in the Northwest may choose to purchase "preference power" from BPA, this includes Western Montana Electric Cooperatives. Preference power is provided by BPA at cost, which not only includes debt (as described above), but also other legal obligations such as fish and wildlife responsibilities. Western Montana Electric Coops taking power from BPA are obviously impacted by any increases in the preference rates as a result of these rate cases.

Fish and Wildlife Costs

Bonneville sets its fish and wildlife budget for the upcoming fiscal year (October 1 to September 30) in July of each year, generally without Council input or oversight. The amount set reflects the projected cost of ongoing work, much of which is to satisfy obligations under the Federal Columbia River Power System Biological Opinion (FCRPS BiOp) through agreements with the various States and Tribes. The Council's role has been to ensure the projects meet scientific criteria -- not to make funding recommendations, as that could potentially interfere with agreements between Bonneville and the various sovereigns. The following information may be of interest:

- Total fish and wildlife costs (including foregone revenue) comprise about 25% of Bonneville's total power-related costs.
- Direct fish and wildlife program costs (capital and expense) totaled \$274.2 million in FY2016. The largest share (43%) is for habitat restoration.
- 3% of these expenses were investments made in Montana (\$7.2 million).
- In 2016, the Council and Bonneville formed a workgroup to identify and review projects for potential close-out or significant cost reduction. Savings identified have been directed to other priority needs, or returned to ratepayers (see cost savings information included below).

This year, as is done annually, the Council released two key reports that we incorporate as part of this document. The first is the Columbia River Basin Fish and Wildlife Program Costs Report. Since 2001, in response to a request from the Governors of Idaho, Montana, Oregon, and Washington, the Council has reported annually on all costs related to fish and wildlife incurred by BPA as reported by BPA, including costs to implement the Council's Columbia River Basin Fish and Wildlife Program (by federal law, BPA is required to act "in a manner consistent with" the Council's Program). This report can be found at <https://www.nwcouncil.org/media/7491102/2017-2.pdf> . The second is the State of the Columbia River Basin. This report discusses in more details the happenings with the power and fish and wildlife program over the last year, as well as issues and actions being taken by the Council and BPA. This report can be found at <https://www.nwcouncil.org/media/7491296/2017-6.pdf> .

Formal Actions by NWPC in 2017 (not including internal management actions)

The Council meets as a whole on a monthly basis, with several meetings around the Northwest region to facilitate public engagement and hear local issues and concerns. Council agendas are typically a mix of items related to monitoring ongoing implementation of the Power Plan and Fish and Wildlife Program by the federal agencies. Other topics include presentations on timely matters relating to energy issues, relevant litigation, and fish and wildlife projects, ongoing research efforts by the Council staff, and administrative matters (budgets, contracts, personnel). Opportunity for public comments is always provided.

Formal Council action occurs when the Council, as a whole, votes on a particular matter.

Fish and Wildlife Program Research Plan

In June, the Council approved a new Fish and Wildlife Program research plan, to improve and strengthen research focus and accountability. This revision of the research plan focuses on improving structure and discipline of how critical uncertainties research is managed under the Program. The plan calls for linking all Program research to critical uncertainties and tracking progress in addressing critical uncertainties over time. The plan also calls for all research projects to include hypotheses and clear links to management decisions, along with proposed completion dates so that expectations are clear about when those hypotheses will be addressed and when there will be opportunities to move to other priority critical uncertainties. Finally, the plan promotes improved reporting of results of Program research. The plan was put together with the help of the states and tribes, was reviewed by the Council's independent science board, and received extensive public comment prior to adoption.

Fish and Wildlife Program Umbrella Projects

Bonneville administers a set of habitat projects known as "umbrella projects" which allow for the coordination of funding and efforts between state, federal and local entities. In

June, following science review, the Council renewed its approval for this set of “umbrella projects,” meaning the projects will continue at the FY2018 budget level of \$15.9 million.

ISAB Review of the 2014 Fish and Wildlife Program

In September the Council asked the Independent Science Advisory Board (ISAB) to review the 2014 Fish and Wildlife Program. The Program calls for the ISAB to evaluate the Program on its scientific merits in time to inform amendments to the Program and before the Council requests recommendations from the region.

Regional Technical Forum (RTF) Budget and Work Plan

In October the Council approved the 2018 RTF budget and work plan. Congress mandated the creation of the RTF in 1996, and required the Council “to develop consistent standards and protocols for verification and evaluation of energy savings, in consultation with all interested parties.” Since 1999, the RTF workload and budget has grown. In 2010, the Northwest Energy Efficiency Taskforce recommended that the RTF operations and budget be reviewed by a high-level committee to improve the operations of the RTF and to put it on a stable long-term funding basis. In response, the Council created the RTF Policy Advisory Committee (PAC).

In June 2014 the RTF PAC provided its recommendations on a five year funding agreement and structure to the Council. The RTF PAC recommended an RTF budget of \$1.67 million for 2015, escalating to \$1.9 million in 2019 to account for inflation. The approved 2018 work plan, budget, and business plan represents the fourth year of the five year funding agreement. A 30 day stakeholder comment period was provided on the proposed 2018 work plan, and comments were addressed in the final recommendation and decision.

Wildlife Projects

BPA administers 29 wildlife projects that were reviewed as a package by the Council’s science review panel, and then by the Council. These projects are ongoing and receive annual funding under BPA’s fish and wildlife budget. The Council approved the projects in October 2017, meaning they will continue to be funded in FY2018 at the budgeted level of \$12.2 million as set by BPA.

A Guide to Major Hydropower Dams of the Columbia Basin

The Council produced and approved an extensive guide with information on pertinent dams in the Columbia Basin, including Libby and Hungry Horse. The guide shows the location of each dam and has interactive features that allow the viewer to get specific information on each dam. The guide can be found at <https://www.nwcouncil.org/ext/storymaps/damguide/index.html> .

Release of Report on the Value of the Federal Columbia River Power System

In August the Council released this paper that discusses, amongst other things, the importance of the hydro system in the Pacific Northwest (to view the report go to <https://www.nwcouncil.org/media/7491266/2017-7.pdf>). The Federal Columbia River Power System is one of the largest multiple-use river systems in the world. The Bonneville Power Administration markets the electricity, and it owns and operates more than three-fourths of the high-voltage transmission grid in the Pacific Northwest.

The federal system has been, and continues to be, the foundation of the Northwest's economy, providing:

- Steady repayment of millions of dollars to the U.S. Treasury for construction of the dams and the electric transmissions system. BPA has made on time and at market-rate interest payments and continues to be a fully self-funded agency.
- Carbon and emission-free power of immense capability and flexibility; hydropower is the region's largest resource, providing nearly half its energy in a year with average rainfall.
- Highly reliable, economic, and clean electricity generation that helps ensure the health, safety, and security of Northwest residents, as well as providing power for both modern and traditional industries vital to the nation, as a whole.
- Investments in energy efficiency, the region's least-cost energy resource, which have contributed to the Northwest having some of the lowest electricity rates in the nation.
- Help in integrating renewable resources in the region.

Habitat Monitoring and Evaluation

BPA has spent nearly \$75 million over the past 10 years for habitat monitoring. In 2013, the Council began questioning whether the monitoring efforts were producing valuable results. This culminated in an overhaul of habitat monitoring and the discontinuation of some of the unproductive monitoring efforts in 2017. It is anticipated that the Council will formally adopt a new habitat monitoring strategy in 2018.

Funding Emerging Priorities

The Council adopted a set of emerging priorities in its 2014 Fish and Wildlife Program, one of which was to provide for long-term operation and maintenance of existing capital, including hatcheries and fish screens. The program directs that emerging priorities should be funded first from savings within the existing budget (see cost savings, below). The Council formed a workgroup to identify and quantify existing O/M needs, and the

Council approved funding from cost savings up to \$474,000 for those needs. The Council also approved the use of \$283,000 cost savings for sturgeon research, another emerging program priority. As noted below, the remainder of cost savings was returned to ratepayers.

Other Actions/Issues of Interest to Montana

Release of Montana Operations Paper

This paper reviews the development and status of operations at Libby and Hungry Horse dams (Montana Operations), and related operations at Selis Ksanka Qlispe (formerly Kerr) Dam that affect Flathead Lake, the largest fresh water lake in the western United States.

This history describes how these operations evolved over time to address the dams' effects on the ecosystem, communities, and natural resources. It addresses operational changes responding to Endangered Species Act listings that occurred in 1991-2000, as well as biological opinions issued by the National Oceanic Atmospheric Administration (NOAA) Fisheries and the U.S Fish and Wildlife Service, and fish and wildlife recovery programs adopted by the Northwest Power and Conservation Council. It reviews current Montana Operations and recommends improvements to increase benefits from basin dam operations. A technical appendix contains a more detailed explanation of the current Montana Operations.

This paper was produced in March 2017 by Montana Fish, Wildlife & Parks; the Montana office of the Northwest Power and Conservation Council; and in consultation with the Confederated Salish and Kootenai Tribes. The full document can be found at <https://www.nwcouncil.org/media/7491060/2017mtops.pdf> .

Bonneville Power Administration (BPA) /Montana Process Addressing Transmission Opportunities and Challenges in Montana:

In response to an invitation from the BPA Administrator Elliot Mainzer, Governor Bullock has agreed to co-host a Montana-focused process to bring stakeholders together to examine the opportunities, challenges, and risks associated with improving transmission access to and across the BPA system for Montana energy developers. Council Member Tim Baker has been tasked by the Governor to represent that Office. We have worked to make sure that Montana interests are well-represented (including Western Montana Generation and Transmission and NorthWestern Energy) and have a seat at the table for these discussions. The first meeting of the group was December 8 in Helena. The next meeting is scheduled for early February. The process is a transparent public process, with opportunity for public comment.

The first meeting was attended by over 80 individuals and numerous others on the phone. The group is in the process of setting up a Steering Committee and 3-4

subcommittees to address planning, operation, and policy. Common themes of the first meeting include; flexible capacity constraints, timing of interconnection and transmission service requests between BPA and Northwestern, the future of the Colstrip transmission system, dynamic transfer capacities, and the costs and risks associated with improving transmission access. Administrator Mainzer expects the process to publish a document with steps forward and potential solutions in 6 months.

Columbia Basin Partnership Task Force (CBPTF)/MAFAC:

Jennifer Anders is representing Montana, the Confederated Salish and Kootenai Tribes (CSKT), and Kootenai Tribe of Idaho (KTOI) as a member of the CBPTF/MAFAC. The group meets quarterly. The goal of the group is to define objectives for salmon and steelhead in the Columbia Basin, which is an objective of the Council's 2014 Fish and Wildlife Program.

NEPA Scoping and BiOp Litigation:

Montana submitted comments during the NEPA scoping process to inform federal decision makers about operations at Libby and Hungry Horse. CSKT and KTOI reviewed the operations paper and provided input. The cover letter to the federal action agencies is signed by the Governor and the Attorney General (AGO), and referenced a previous comment letter from the AGO asking that hatchery and harvest management also be considered as part of the NEPA scoping process for the FCRPS BiOp. We are tracking recent events, including the recent judicial orders for increased spill at dams and potential implications for Montana and its ratepayers, and providing advice and input where appropriate.

Montana Fish and Wildlife Accord:

Montana's 2008 Agreement with BPA provided additional funds up to \$15 million for habitat loss as a result of construction and operation of Libby and Hungry Horse dams. The accord expires in 2018. Bonneville is in the process of discussing with existing Accord partners the potential for future agreements, including the State of Montana. Montana Council members are coordinating this effort with Montana FWP. Bonneville is looking at a shorter time frame for agreements (3-5 years), with flexibility in funding commitments depending on BPA finances.

Conservation/Energy Efficiency

In response to comments received by Montana BPA preference customers at the Council's April meeting in Missoula, Montana, and Actions Items from the 7th Power Plan, Council members and staff are stepping up the pressure on our central staff and BPA to consider developing options and program flexibility for rural customers facing challenging circumstances, such as low load growth. This is in addition to ongoing work by the Council's Conservation Resources Advisory Committee addressing the challenges for the "hard-to-reach" markets. The staff with Montana BPA preference customers have been very helpful in this process, they have submitting excellent advice and examples, comments on BPA Energy Efficiency programs and data on program

results. A key part of this effort is an anticipated report by the Council, to be published in 2018.

Cost Savings Returned to Ratepayers:

Jennifer Anders chairs the cost savings workgroup which has been coordinating with BPA to identify cost savings within existing Fish and Wildlife projects, to stretch existing BPA budgets. In FY2017, the workgroup found \$651,915 in savings. Of that amount, \$255,000 was allocated to currently identified projects (including O/M costs at existing facilities) and nearly \$400,000 was unallocated and returned to BPA reserves. In FY2016, \$182,746 was unallocated and returned to BPA reserves.

Council Budget

In light of BPA budget constraints the Council tightened its belt, and came in 8% under Budget for FY 2016 (October 1, 2016-October 1, 2017), returning \$ 900,000 to BPA reserves. For FY 2017, the Council's budget actuals have not been finalized yet but it is looking like more than \$600,000 will be saved.

The Council is aware of the current economic challenges facing the four-state region, and the need to maintain healthy financial conditions for BPA. In an effort to be responsive, the Council in Fiscal Year 2018 and Fiscal Year 2019 will continue to adhere to the budget constraints initiated over the last several years. To accomplish this, the Council will:

1. Continue to identify efficiencies in operations and administration in order to limit inflationary increases to below 3 percent, on average, during fiscal years 2009-2019.
2. Re-allocate staffing where possible to absorb new workload without increasing FTEs.
3. Re-prioritize resources as necessary to respond to new requests for technical analysis. Reschedule or postpone work anticipated during the budget-development process in order to respond to the most essential requests for studies and analyses.

Congressional Tour:

Montana and Idaho hosted the 2017 congressional staff tour on August 21-24. The tour began in Spokane, WA, then to Bonners Ferry, Idaho, Libby Dam, and back to Spokane. Participants visited Lake Pend Oreille, the Kootenai tribal hatchery, Libby Dam in Montana, and heard from the local utility in Bonners Ferry.

Outreach to Montana Co-ops:

In the past year, Jennifer Anders met with the Flathead Electric Co-Op Board of Directors and Vigilante Electric. Tim Baker met with the Boards of Directors for Vigilante,

Ravalli, Missoula, and Flathead Electric Co-Ops, and management of Lincoln Electric and Glacier Electric Coops. Baker also attended a meeting between BPA Executives and Flathead Electric Management and staff in Kalispell to hear BPA's vision for the future leading up to the 2028 contract negotiations. In addition, we provide quarterly updates to the Montana Co-ops regarding our activities.

Sea Lions:

Tim Baker has been working with other Council members to build Congressional support for the Endangered Salmon and Fisheries Predation Prevention Act, now pending in Congress. Loosening take limits for California Sea Lions under the Marine Mammal Protection Act is a vital part of our efforts to protect salmon populations and protect ratepayer investments.

AIS Funding:

The Montana Legislature communicated to the Council and BPA a desire for additional financial commitments for aquatic invasive species (AIS) management. The Council is concerned about the threat posed by AIS, including zebra/quagga mussels, in the Columbia Basin as seen by the language in our fish and wildlife program and work we have done to help procure U.S. Army Corps funding for efforts in the region and Montana. However, we have also pointed out that ratepayer funding is already being used for AIS efforts through BPA via the Pacific States Marine Fisheries Commission.

c:\users\berg\documents\legreport2017final.docx (Kerry Berg)