

# **Bonneville Power Administration Public Review Meeting for Fish and Wildlife Costs**

**February 4, 2005  
Sheraton Portland Airport  
Approximate Attendance: 40; 3-4 by phone**

[The handouts for this meeting are available at:  
[http://www.efw.bpa.gov/Integrated\\_Fish\\_and\\_Wildlife\\_Program/pfr.aspx#0204workshop](http://www.efw.bpa.gov/Integrated_Fish_and_Wildlife_Program/pfr.aspx#0204workshop)]

## **Opening Remarks**

Facilitator Hugh Moore (BPA) welcomed participants and explained the format of the meeting. First, the Corps and BPA will deal with questions raised at the last meeting, and second, we'll address more general policy questions, he said.

Today, we wanted to get your feedback on our fish and wildlife (F&W) costs and clarify how those costs affect our rate structure, Greg Delwiche (BPA) told participants. Last week, we presented "drivers" of the F&W costs, and at this meeting, we want to have a policy discussion about those drivers and how they should be treated going forward, he indicated. Delwiche listed the items on the workshop agenda and acknowledged, "we may have been overly optimistic" about getting through the policy discussion. These are complex issues, but this is not your only chance to discuss them, he said, noting other specific opportunities, including additional Power Function Review (PFR) workshops and the Northwest Power and Conservation Council's (Council) February meeting. Public comment on the PFR will be open until April 29, Delwiche said.

## **Agenda**

### **1. Lower Snake River Compensation Program (LSRCP) and Hatchery Reform**

There were so many questions about hatcheries raised at the last meeting, we put together a set of tables of BPA-funded hatchery programs, according to Bob Austin (BPA). He explained that the tables lay out the costs and purposes of the hatcheries and noted that BPA is not the sole source of funding for all of them. BPA is still working on costs for the LSRCP hatcheries, but now has them pegged at \$19.8 million for the three-year rate period, Austin pointed out.

Ed Sheets (Consultant to Yakama Nation) asked if expenses for hatchery reform would be included in the 2007-2009 rate proposal. This is an area that needs lots of discussion, Austin responded. He noted that BPA is responsible for certain hatchery costs, including the LSRCP. We have a direct-funding agreement with the U.S. Fish and Wildlife Service for expenses in that program, but not for capital, and we are looking at that, Austin said. If there are large new expenses, say as a result of Hatchery Genetic Management Plans,

we may have to look at other funding sources, he acknowledged. It's not a great time to go to Congress, but that may have to be considered, Austin said.

Delwiche made note of a study done by the Independent Economic Advisory Board (IEAB) that attempts to get at biological and cost-effectiveness questions related to hatchery operations.

## 2. Risk Mitigation

Diane Cherry (BPA) recapped a risk presentation from the last meeting and handed out a table specifying risk mitigation tools incorporated into 2002-2006 rates. The presentation last week by Roy Fox "was a reminder that risk issues are rate case issues," she said.

Tom Giese (CBFWA) asked about the relationship between BPA's transmission rates and power rates. Wouldn't it make sense to review TBL and PBL costs jointly? he asked. It might be, but by law, BPA has to set rates separately for the two, Cherry responded. She noted that TBL had a public discussion of costs, called Programs in Review, prior to its rate case last year.

Aren't most F&W costs included in PBL? Dick Helgeson (EWEB) asked. Yes, that's true – most of the F&W costs flow through PBL, Cherry responded.

## 3. Columbia River Fish Mitigation Project (CRFM)

John Kranda (Corps) reviewed information from his presentation at the last meeting and noted clarifications on some of his slides. The CRFM is a capital program to improve fish survival through the dams on the Columbia and Snake rivers, he said. It is funded through Congressional appropriations, and BPA repays the Treasury for the power share of the CRFM costs, Kranda explained. The repayment begins when a new facility goes into operation, he said. At that point, the appropriations are transferred to "plant-in-service," and the power share of the costs is repaid by ratepayers, Kranda said.

He went on to explain that the costs are normally transferred when a new facility goes into operation, but Congress made a special case for CRFM study costs. Congress recommended in 1991 "before the ESA listings and the Biological Opinions (BiOps)" that costs for the CRFM studies be held until the work was complete, Kranda said. That was expected to happen in 2001, but with ESA listings and four BiOps intervening, that has not occurred, he explained. There is now about \$300 million in study costs being held for transfer to plant-in-service, and the Corps is revisiting this issue to figure out how to handle it, Kranda indicated. The discussions will go through the Corps' "chain of command," and the issue may be taken up with Congress again, he said, adding that some of the study costs have been pending for 20 years.

James Buchal (CSRIA/EOIA) asked about the basis for doing the studies. Kranda said they included BiOp directives like the Lower Snake River Feasibility Study (drawdown)

and dissolved gas abatement studies. Who will owe this \$300 million? asked Steve Weiss (NW Energy Coalition). BPA will, Kranda said.

Doug Marker (NPCC) pointed out that the repayment requirement for the Corps studies was forecast and included in the 2001 rate case. Valerie Lefler (BPA) agreed the 2001 rate case included the repayment forecasts and that payments were projected to begin in 2002. Was the money put aside? Weiss asked. “We don’t color-code revenues,” Lefler replied. We forecast our costs and set rates accordingly – some costs come in higher than forecast and some come in lower, she said.

Fred Rettenmund (Inland P&L) asked for a breakdown of the Corps study costs, and Kranda said that could be provided.

### Skipping Ahead to Depreciation and Amortization

Lefler explained BPA’s capital funding mechanisms, pointing out that BPA pays F&W investments in two ways: bonds and capital appropriations. The direct program is funded by bonds issued to Treasury, and payments begin as soon as bonds are issued; with capital appropriations, costs go into rates when projects become plant-in-service, she said. Lefler went over a table of net interest, depreciation and amortization for F&W.

There were several questions about figures on the table and where the \$300 million in CRFM studies fit into the picture. There’s a fairly big difference between the assumptions for the rate case and what actually happened, Rettenmund pointed out.

Are we done paying the \$300 million or will you put it into rates again? asked Michael Early (Alcoa/CFAC). These were forecasts, Lefler responded. We have to pay the costs when they come in, she added. But your forecast is wrong, so you will put those costs in rates again? Early queried. We make forecasts and set rates accordingly, Lefler reiterated. Some of the actuals come out more and some come out less, she stated. So, I take that as a yes, Early replied.

You said you “have to pay,” but on what legal basis? Buchal asked. The \$300 million covers studies done to meet the requirements of the BiOp, Peter Gibson (Corps) responded. “They are not Corps costs, they are regional costs,” he said. Gibson noted that projects become plant-in-service when they are complete, and the mitigation analysis is not complete until “all of the paperwork” is done. By law, BPA has to pay when a project becomes plant-in-service, he stated.

BPA’s legal obligation to make repayment for appropriated costs is straightforward, Philip Key (BPA) clarified. Congress appropriates money for studies for the Federal Columbia River Power System (FCRPS), and BPA must repay it, he said. Can we get confirmation of that? Buchal asked. Yes, Key responded.

It’s important that customers have confidence in the forecasts of projects going from construction-in-progress to plant-in-service, Rettenmund commented.

In response to the implication that “customers are paying twice” for the studies, Delwiche pointed out that BPA’s reserves are higher than projected because the agency has paid less debt service during the rate period. He also noted again Kranda’s statement that the Corps is revisiting the issue of transferring the \$300 million to plant-in-service.

“I was angry about F&W costs when I came here today,” but another issue overtook that anger, Jerry Leone (PPC) stated. Four Power Marketing Administrations “were put over a barrel in Washington, D.C. today” and told they would have to raise rates 20 percent a year until their rates are at market, she reported. That would be a \$4 billion rate increase for my members, Leone said.

### Picking Up on CRFM

Kranda reviewed a table of annual expenditures and the power share of transfers to plant-in-service from 1997 to 2004, and he elaborated on regional coordination, including the biological/technical review CRFM projects receive and the input on prioritization. The NOAA-Fisheries’ Regional Forum provides the process steps for review, prioritization and tracking execution of measures, Kranda explained.

He listed 2005 program highlights, including passage and predation research, design and construction of removable spillway weirs (RSW) at two dams, and surface bypass and configuration evaluations at four dams. Kranda also described the steps that go into a cost-effectiveness review.

Does the Corps “have to do all of this”? Buchal asked, referring to a table of 52 priority items for 2005. These measures come from the BiOp and other directives to address problems in the hydro system, Kranda responded. Why do ratepayers have to pay for something like a \$7 million estuary study, when the estuary is miles from any dam? Buchal asked. There are many questions related to the estuary, including identifying causes of transportation mortality, Kranda responded. It appears you are spending mitigation money to look for ways to have to mitigate, Buchal indicated.

Again, these are not Corps’ studies but regional studies, and they come out of regional discussions, Gibson said. “The Corps is not arbitrarily deciding to do these studies,” Delwiche agreed. Many of them are a result of the BiOp, he clarified.

The Corps does not come up with these projects in a vacuum, Kranda stated. We look at the survival goals, consider how to achieve them and come up with a recommended plan at each dam, he explained.

How will BPA make a decision on the cost-effectiveness of these expenses? Buchal asked. The Regional Forum, which includes participants with a range of interests, is where these priorities are determined, Kranda responded. Do we take the output of that process “as fixed and immutable” in the rate case? Buchal asked. Yes, Delwiche responded. The CRFM spending choices are determined in that process, he said.

Where is our opportunity to help decide these costs? Buchal asked. Decisions on the level of spending are made in Congress and decisions on what to spend it on are made in the Regional Forum, Delwiche replied.

In response to questions, Kranda gave an update on the status and costs of RSWs. How does BPA allocate the RSW costs? Weiss asked. Delwiche said they are accounted for as part of CRFM. Weiss suggested a portion of the costs be allocated to power, not F&W. If there weren't power benefits, I doubt these would be a high priority, he indicated.

Kranda recapped slides on measure execution, as well as anticipated future actions. He summarized CRFM costs through fiscal year 2004, noting that \$930 million has been spent, with the total project cost estimated at between \$1.5 billion and \$1.6 billion. The schedule is to complete the project by 2014 to meet the BiOp goals, Kranda stated.

Did we revisit the \$300 million and status of the CRFM studies as part of the Safety-Net Cost Adjustment Recovery Clause (SN CRAC) and the Sounding Board? John Saven (NRU) asked. The status would have been reflected in the SN CRAC calculation and the lower plant-in-service amount factored in, Lefler responded.

You referred to "your regional forum partners" – I want to be one of your partners in these decisions, Saven stated. The Regional Forum was established by NOAA-Fisheries to monitor implementation of the BiOp, and to my knowledge, it's open to everyone, Kranda responded. He also pointed out that the decision documents the Corps develops for projects are subject to external review.

We buy 10 percent of BPA's output, so we pay 10 percent of the agency's costs, Ed Hansen (Snohomish PUD) said. I speak for the ratepayers when I say our rates are pushing the bounds, he indicated. One of the PUD's large industrial customers, Kimberly-Clark, has 31 plants nationwide, and Snohomish charges the second highest rates of any of the other locations, Hansen pointed out.

On the Regional Forum chart, there is nowhere for customers, he stated. "We don't have a seat at the table," and that has to change, Hansen said. Going forward, you are going to hear from the customers, he said. We want to provide input as decisions are made, Hansen summed up.

In response to a question, Delwiche explained how BPA develops the figure for the cost of hydro operations effects, projected to be \$356.9 million annually in the 2007-2009 rate period. It is basically the difference between two separate studies of operations, he summed up, after detailing the calculation.

##### 5. O&M/Fish Passage Facilities/Capital Investments

Phil Ocker (Corps) went over how the Corps develops an O&M budget for the F&W program, describing the process for ranking tasks according to their relative importance.

How will you decide when you are done with mitigation? Buchal asked. Ocker pointed out that some dams cut off passage, so hatcheries, for example, are there to mitigate in perpetuity. Others noted that Corps studies dating back to the 1940s provide guidance for fisheries mitigation responsibilities. Delwiche explained that mitigation responsibilities for fish are less straightforward as compared to wildlife mitigation under the Northwest Power Act. BPA has developed a crediting mechanism called “habitat units” to measure wildlife progress, he explained.

Austin said BPA’s website has a ledger statement that tracks the progress on wildlife mitigation in various parts of the basin. We are close to 50 percent of our goal, depending on the area; we are making progress on the construction losses, he stated.

Ocker explained the 2005 F&W expense budget for Lower Granite Dam. Do you have a list of deferred maintenance needs? Marker asked. We keep track of that, but it’s not reflected here, Ocker said, adding that he could provide the information to Marker.

Do litigation costs come out of the fish budget? Judi Danielson (NPCC) asked. They’re not part of O&M, Ocker said, adding they are reflected in agency overhead. I’m not aware of a breakout like that, but it would be interesting to track, Delwiche responded.

Anadromous fish expenses make up 85 percent of the Corps’ F&W O&M budget, resident fish and wildlife makes up 10 percent, and 5 percent is water quality, as it relates to fish, Ocker said. He noted things, such as the BiOps, that have changed the O&M budget in past years, as well as items that could affect future budgets, and he provided a line-item breakdown of the budget, explaining each item and what it entails.

Ocker reiterated that the Corps does not make decisions in a vacuum and works through the Regional Forum and produces detailed planning documents, including fish passage plan and water management plans.

### MOA Update

Marker provided an update on efforts to reach agreement on an integrated program funding level. He explained that a group, including BPA and Council staff and F&W managers, are looking at the F&W program “from the ground up” to determine the cost drivers and to map out the next F&W project-selection process. In the end, the group will come up with the amount of money it will take to accomplish various goals within the F&W program, Marker explained. The biggest variable in cost is habitat mitigation, he noted. The recently prepared subbasin plans cover the mitigation needs in each of the region’s subbasin, Marker said.

The benefits to various customer groups, like the IOUs and DSIs, change depending on power market conditions, Saven pointed out. BPA faces risks with non-firm revenues, he said. Do you see a relationship between that risk and F&W spending? Saven asked. I’ll

take that as a comment – you are suggesting it’s a parameter that should be explored, Delwiche responded.

## 6. Open Discussion of Policy Questions

Delwiche went over the list of policy issues and questions in the meeting packet: O&M for fish passage facilities; hatcheries; research, monitoring and evaluation; cost sharing; and capitalization. He opened the floor for comments on the issues.

As I told Judge Redden, no one wants fish in the river more than my members, Leone stated. They have paid \$6 billion so far for mitigation, but there is always a request for them to spend “another cup of latte a day” for fish, she said. There is nothing that sets priorities or measures cost-effectiveness for the money spent, and BPA’s contracting records for F&W are “a mess,” Leone went on. There have been 3,000 contracts let since 1978, and a number of them can’t even be found, she added. Now we have heard that rates might go up to market levels – BPA rates are 32 mills and market rate is 45 mills, according to Leone. An increase like that “would kill industry in the Northwest,” she said. “The elephant in the living room” is cost-effectiveness, biological goals and accounting, Leone stated.

Our contracting methodologies needed improvement, and we have launched an effort to improve them, Delwiche responded. It’s a work in progress, he said.

This is “a dysfunctional system,” Buchal stated. There has been a failure to understand the mitigation obligations of the ratepayers, he said. The Council “cobbled something together in 1986” to establish the mitigation obligation and assumed there was once 16 million fish in the basin, Buchal said. That number was disputed by experts like Don Chapman, he indicated. There was an attempt to calculate the losses due to the hydropower system, and the Council set losses at each dam at between 10 and 30 percent, another erroneous assumption, Buchal said. None of this is accurate, and we ought to redo the obligation, he advised. There may be no mitigation obligation for the ratepayers if it is done right, Buchal stated. The “elephant” is the mitigation obligation, he said. Buchal added that under the law, BPA is supposed to make decisions and set boundaries about what it will do for ESA-listed species, not just follow others’ directives. My clients are tired of this system too, he concluded.

There are not adequate checks and balances in the system, Saven stated, and there seems to be something “fundamentally broken” here. Part of the problem is procedural – we need to know how we can influence spending decisions at the right time, he stated. The \$300 million in study costs “is a ton of money,” Saven said. We will press BPA and be present in other forums where there are cost discussions, he said. There are no checks and balances for “rational decisionmaking,” Saven wrapped up.

I disagree with Jim Buchal, Larry Cassidy (NPCC) said. I’ve never looked at the total numbers of fish needed in terms of the Council protocol you described, he added. The important thing is what we are doing in the tributaries that allow fish to spawn there, and

we are having some successes, according to Cassidy. “The barometer of success is not fish across Bonneville Dam,” it’s in the tributaries, he stated.

There is synergism between BPA’s financial condition and adjustments in F&W spending, Cassidy continued. The Council responded when BPA had a downturn in revenues, and we took \$40 million in F&W projects off the table, a move “that was met with chagrin by the F&W folks,” he stated.

The numbers here are troubling, Weiss began. When we look at the broad picture and come up with a figure like the \$356.9 million for operation expenses, it implies “power owns the river,” he said. The first thing we should do is talk in equal terms about the uses, including irrigation, according to Weiss. We have had good progress with fish recovery, and to say the program isn’t working, “sells the region short,” he said.

The amount of money being spent “is not inordinate” considering how large the Columbia River Basin is and how complicated the salmon lifecycle is, Weiss continued. We are still talking about “a few bucks a month more” on the electricity bill, he added. If we had done more conservation in the 1980s and 1990s, we would have made up for a lot of that expenditure, Weiss said. Power is valuable and if we save it, we can make up money and spend more on fish, he concluded.

We are a large BPA customer, and we spend about \$70 million a year on fish costs, according to Steve Marshall (Snohomish PUD). That is more than the entire payroll for our utility – we pay three times more for salmon than we do for transmission, he said. Dan Evans said the main driver of the economy in the Northwest is low-cost power, and to restore fish, Evans said we should look toward ocean conditions and ocean harvest, Marshall continued. Dams “are background noise” compared to these influences, he added. With the technology that is used to make modern fisheries successful, the salmon don’t have a chance, Marshall said.

We lack adequate controls on harvesting ESA-listed fish – the best way to spend our money is to look at “the intentional killing,” he contended. Marshall referred to growing efforts in the region to consider harvest impacts on salmon recovery. We are looking in the wrong place to save fish – “we’re missing the boat,” Marshall said. The region’s F&W program is “a massive program that has gone massively wrong,” he concluded.

NOAA-Fisheries issues a take permit for the Alaska fishery; there is great complexity in determining the Alaska fishing season, Cassidy indicated. He noted research is being done to track the movement of Columbia River fish in the ocean. We’ve looked at the ocean “as a black hole,” and he acknowledged the need to better understand it. “But it isn’t a silver bullet,” Cassidy stated. The reduction of interceptions and the abundance-based harvest system are helping, he added.

“This is real money,” and it’s a remarkable funding arrangement, Early said. Think about having to go to Congress to get a \$700 million annual funding level for a program – if you did, you’d take a different approach, he stated. You are asking us to tell you what’s

wrong, but “the burden should be on the agencies to make their case,” according to Early. If I were a Congressman asked to vote on a \$700 million expenditure, “I would say you have not made your case,” he stated.

How do we even judge success? What is your mechanism for measuring achievements? Early asked. I have no expectation that this program expense number will go down, but “you have not made your case” about whether it is money well spent and whether it is getting us to the goal, he stated.

The Corps, BPA and NOAA-Fisheries have come up with an interpretation of the ESA “that is unique and wrong,” Buchal said. In 2001, BPA spilled \$1.5 billion in power at the height of a shortage, yet we only get “white noise” when we try to relate these operations to benefits, he said. We have no evidence of a measurable benefit, but we keep doing the same thing over again and again, according to Buchal.

There was a comment that what is important is what the region is doing to encourage fish to spawn in the tributaries, he continued. But what does that have to do with the ratepayers? Buchal asked. They are not doing anything in the tributaries for which they should have to pay, he stated.

If they were able to be here, “you would hear frustrations” from tribal policymakers, and you would hear ideas about where we need to go, Sheets commented. We keep hearing about salmon science, and I would like to offer a meeting between the fish managers and the utility managers to talk about where that stands and what needs to be done, he said.

The tribes are ratepayers too, and in Indian Country, there is real concern about the economy in their communities, Sheets said. In 1855, the tribes ceded 12 million acres in central Washington in exchange for rights to hunt and fish, but those rights have been eroded by the FCRPS, he said. The tribes have given up significant harvest rights, and some years, they have not been able to get ceremonial and subsistence catches, Sheets said. The tribes have ideas about BPA’s expenses and capitalization policies – they would like to see capitalization of land purchases, for example, he said. The tribes and others have worked to develop subbasin plans “that have good science and clear objectives,” Sheets stated, and managers are now trying to determine what it would cost to implement the plans.

I don’t want there to be a misunderstanding that the Council feels funding subbasin plans is entirely a hydro system responsibility, Danielson stated. It is not, she said.

This isn’t a forum to resolve whether we need a fish plan, Helgeson said. But whatever the cost and spending levels, it would be nice to be confident they have rational thought behind them, he stated. What part of the \$691 million is discretionary? Helgeson asked.

The hydro operations effects are largely a result of the BiOp, Delwiche responded. With regard to the integrated program, there is a degree of freedom there; about \$70 million maintains existing investments, he explained. There is some degree of freedom with the

LSRCP and with the Corps O&M, but they are not large budget items, Delwiche pointed out. With repayment obligations, “we can’t undo the past,” but we can think about what we’ll do in the future, he said. The major areas of discretion are the integrated program and future debt, Delwiche summed up.

We have concern about the near-term upward pressure on the integrated program, Early indicated. He cautioned against “locking down” pieces of the revenue requirement before other parts of it are clear. “That comment is aimed at the MOU,” Early stated.

The BiOp litigation outcome may not occur while we are developing rates, so we have to think about how to deal with it, Delwiche commented.

Charles Pace (Spokane Tribe) asked how cost decisions that drive BPA’s rate proposal would be made. We will take comments until April 29, and in May and June, “we will lock down the costs,” Delwiche responded. The time for input is now, he added. Will the Administrator issue the decision and will it be final? Pace asked. The Administrator will issue a decision letter, Lefler responded. Whether it’s a final action under the Northwest Power Act remains to be seen, Key added.

We’d like to see a written response about whether these will be final decisions on cost, and if so, what the avenues for appeal would be, Sheets said. It would be helpful for you to be really clear about this, he added.

Delwiche wrapped up the meeting with a list of issues raised:

- lack of priorities in F&W mitigation efforts
- lack of information and accountability for cost and biological effectiveness of measures
- obligation of the ratepayers for mitigation is “the elephant in the room”
- BPA and Corps don’t have to do what NOAA-Fisheries recommends
- not enough checks and balances
- ratepayer engagement in the Regional Forum
- likely direction for programs in the future
- burden is on customers to point out what’s wrong
- agencies have not made their case
- “the bandwidth” for the total F&W program – could be small, but legal overhauls could make a huge difference.

The meeting adjourned at 4:15 p.m.