



COLUMBIA RIVER TREATY POWER GROUP

August 7, 2013

The Honorable Jay Inslee
Office of the Governor
PO Box 40002
Olympia, WA 98504-0002

Dear Governor Inslee:

We are writing to you on behalf of The Columbia River Treaty Power Group (Power Group), which provides a forum for electric utilities, industry associations, and other entities that depend upon power produced by Columbia River generating plants to engage in the United States' evaluation of whether to continue or terminate the Columbia River Treaty with Canada. Together, we represent 6.4 million customers in the Pacific Northwest, who are directly impacted by this Treaty.

The Power Group is extremely concerned about the draft recommendation recently released by the U.S. Entity and is seeking your assistance to ensure the recommendation adequately reflects the considerations that the power and economic interests articulated in the review process.

We have been engaged in the process established by the U.S. Entity (the Bonneville Power Administration (BPA) and the U.S. Corps of Engineers) for the past 36 months, but have not been included in the Sovereign Review Team (SRT) created to assist the U.S. Entity in the analysis and development of a recommendation to the U.S. Department of State to guide Treaty negotiations. This lack of inclusion and transparency has been particularly troubling because the SRT meetings have been closed to the public, including the utilities (and their customers) financially responsible for the Canadian Entitlement.

On June 27, 2013, the U.S. Entity released its working draft recommendation document which fails to recognize the importance hydropower has for our state's economy and the environment.

We felt it was critical to notify you of our strong concern with the current draft document so that you can engage more directly in the deliberations of the SRT where you are represented by

Northwest Power & Conservation Council Member Tom Karier. It is imperative that we raise the power issue to the level it deserves in the Treaty negotiations.

U.S. Entity Working Draft Recommendation

As you know, the original Treaty signed in 1964 had two primary provisions: flood control and hydropower. In a new “modern” Treaty, ecosystem interests are proposed to be added as a third primary purpose to a renegotiated Treaty. The Power Group is concerned that the current draft does not recognize the investments that have been made over the past 50 years by utilities to protect and enhance fish, wildlife and habitat. In addition, despite numerous studies showing the disparity between the downstream power benefit paid to Canada and the commercial value of the water storage provided by Canada to United States power customers, the lack of focus on power issues in the draft is worrisome.

Hydropower and the Ecosystem

We understand the U.S. Entity has been asked to include the ecosystem as a third primary purpose of a renegotiated Treaty. However, as stated above, U.S. electric utility customers have been making ecosystem improvement investments for decades. Utilities individually through their Habitat Conservation Plans and federal hydroelectric project licenses make significant ecosystem investments in addition to the \$700m-800m paid annually by BPA’s customers (nearly 25% of BPA’s annual budget) for fish and habitat restoration and protection. BPA has the largest fish and wildlife restoration program in the world and it is notable that the U.S. Entity draft recommendation does little to acknowledge, let alone honor this investment by BPA’s customer-utilities and the people they serve.

We are proud of the work we have done and have demonstrated the investments are paying off with increased anadromous fish returns. We recognize work still needs to occur and we plan on continuing our efforts. However, we have strong concerns that the U.S. Entity draft recommendation reflects various U.S. interests negotiating against themselves to create new U.S. ecosystem obligations. The biological benefit and cost of the ecosystem proposals, or any real justification for them, is missing from the draft recommendation. Any proposals for new investments must reflect the best available science and be considered in the context of the costs and benefits that may accrue.

Canadian Entitlement

The draft recommendation states one of its goals is “preserving reliable and economic hydropower benefits” but it is woefully inadequate in specifying the amount of inequity in the current and forecast power benefit between the two countries. The Canadian Entitlement (the annual U.S. payment via energy provided to Canada by BPA and the Mid-Columbia utilities for the added “benefit” the U.S. gets from the storage of water in Canada) was calculated based on a number of 1960s assumptions that have not come to fruition. Currently the Entitlement is estimated to have a replacement value of \$250-\$350 million annually. The value of this electricity represents jobs and economic development occurring in Canada instead of the U.S.

We believe that current payment is not aligned with the true benefit from the water stored in Canada and must be renegotiated to an appropriate level via a framework that better aligns U.S. and Canadian interests for the foreseeable future. The Power Group urges that the U.S. Entity’s

recommendation should clearly state any payment made to Canada for downstream power benefits should not exceed one-half of the actual, incremental power benefit achieved through coordinated U.S./Canada operation as compared to non-coordinated operation.

If and when we secure a more appropriate formula for sharing the true value of the service provided in Canada, our customers will benefit. Correcting the Entitlement inequity, which is hundreds of millions of dollars per year, will directly benefit our customers and businesses. The region's economy is closely tied to our affordable energy and we cannot miss the opportunity to protect our low rates and our customers' bottom-line.

Climate Change

The draft recommendation states climate change impacts must be considered in renegotiated provisions of the Treaty. However, there is no acknowledgement that the region's extensive hydropower system does not emit greenhouse gases and is an important component for addressing our state's climate impacts. The downstream power benefit to Canada must recognize the additional value of the renewable, carbon-free power provided to Canada. In addition, hydropower is an important tool for integrating renewable resources (such as wind and solar). Without hydropower as back up, we may not be able to maintain a reliable electric system as we bring additional wind and solar resources online.

The draft recommendation also fails to acknowledge the impacts climate change may have on the hydropower system. Those of us operating and maintaining the hydropower system are very aware of these impacts, and have begun to prepare for changes in our operations in the future. We must ensure a renegotiated Treaty recognizes the enormous value of carbon-free power included in the Canadian Entitlement and the long term operational changes we may plan for to mitigate the effects of climate change.

In closing, the decisions made regarding the Columbia River Treaty will have significant impacts to the entire State of Washington and the Pacific Northwest for decades to come. We believe as the Treaty is evaluated, the importance of the hydropower system must be on equal footing with other provisions of the Treaty going forward.

We are requesting your direct engagement in the coming weeks. We must not undervalue the hydropower system's contributions to our state's economy. We must not undervalue the ecosystem investments and programs already in place and the resulting benefits. We must not undervalue the carbon-free energy produced from the hydropower system at stake in this Treaty or its ability to facilitate additional carbon-free energy production in the future.

Please let us know how we can best work with you and Council Member Tom Karier going forward to address our concerns and ensure a recommendation that reflects all our region's assets and interests. If you have any further questions for the Power Group or its members, please feel free to have your staff contact Maura Brueger of Seattle City Light at 206-684-3015 or by email at maura.brueger@seattle.gov, to coordinate a follow up discussion.

Thank you for your consideration.

The Columbia River Treaty Power Group (WA members & regional trade associations only)

Alcoa Inc.
Benton PUD
Chelan County PUD
City of Cheney
Clark Public Utilities
Columbia Rural Electric
Cowlitz PUD
Douglas County PUD
Ferry County PUD
Franklin PUD
Grand Coulee Project Hydroelectric Authority
Grant County PUD
Grays Harbor PUD
Lewis County PUD
Mason County PUD #1
Mason County PUD #3
Northwest Requirements Utilities
Okanogan County PUD
Pacific County PUD#2
PacifiCorp
Pacific Northwest Utilities Conference Committee
Pacific Northwest Waterways Association
Peninsula Light Company
PNGC Power
Public Generating Pool
Public Power Council
Puget Sound Energy
Richland Energy Services
Seattle City Light
Snohomish County PUD
Tacoma Power
Washington Public Utility Districts Association
Washington Rural Electric Cooperative Association

Cc: Tom Karier, Northwest Power & Conservation Council
Keith Phillips, Office of the Governor