



PRESIDENT'S MESSAGE

Global warming and the need for cleaner, domestic energy options are driving what one might say is a hydropower renaissance. This exciting time in our industry means new opportunities as well as new challenges.

This long overdue resurgence did not come easy. Instead, it has been a collective industry effort, that as the NHA president, I could not have done alone.

I have received strong support from NHA staff, my fellow NHA board and committee members, and past association presidents. These individuals show that they will "go to bat" for this industry when called upon. Thanks!

Also, a special thank you goes to my employer Brookfield Power – a company that has encouraged and supported my participation in NHA.

In 2006, I outlined my goals for my presidency, and I'm pleased to say that NHA achieved much throughout this year.

- **Build:** Many members examined their portfolios to see how best to take advantage of the production tax credits under the Energy Policy Act of 2005 that the NHA lobbied long and hard to secure. Several of you are building more projects and/or expanding existing projects with incremental megawatt hours. Some are making hydropower new again by employing new technologies such as ocean and kinetic. In fact, some of these new projects will provide renewable hydropower energy by the end of 2007.
- **Extend:** In 2006, NHA successfully secured an extension of the placed-in-service date for new generation eligible for a PTC under EAct 2005. The date has

been pushed out a year to Jan. 1, 2009, from Jan. 1, 2008. The desired extension indicates that legislators heard our pleas that an extra year would enable us to get equipment and contractors in place, and would allow time for construction.

- **Promote:** This past year, NHA began its "HydroPOWER: the power of moving water" rebranding campaign. With jazzed up collateral now available on the association's website, a straightforward message can be easily conveyed to lawmakers and other decision makers regarding the benefits of hydropower.

Recently, NHA formed the New Technologies Council. Couple these new technologies with conventional hydro generation forms, and we can effectively show the potential of hydropower in this country.

Much work has been done to integrate hydropower into other renewables, achieving recognition within the wind, solar and geothermal industries, just to name a few.

- **Recruit:** Exciting times in our industry have led to increased membership recruitment. In fact, during my presidency, 21 new member companies joined the NHA. But let's remember that as a membership-supported organization, the NHA is always looking for new recruits.

There are still many challenges that lie ahead, but none too daunting for NHA. I'm confident that this association will continue to be successful under its new leadership. Thanks again for allowing me to represent this fine industry in 2006.



David Youlen
President

EXECUTIVE DIRECTOR'S MESSAGE

Building on Success, Creating New Opportunities

In 2006 we demonstrated more than ever that hydropower IS the power of moving water. With a renewed interest in the development of traditional hydro and new technologies – hydrokinetic, tidal, conduit and ocean energy – the industry is poised for tremendous new growth. It is an exciting time to be part of the hydropower industry and a part of NHA.

Following on the success of the enactment of the Energy Policy Act of 2005, the Association rolled out a new initiative to reposition the hydroelectric industry in the clean energy debate. This initiative, the “Power of Moving Water,” provides support for new technologies as sources of clean, reliable, domestic energy generation. It calls for increased policy support to see new development of hydropower in all of its forms – conventional and non-conventional.

This new campaign offers tremendous opportunity to raise broad support for hydropower, to build on tax incentives, reinstate R&D support, and initiate a new dialogue on developing a smarter permitting scheme for new technologies and small hydropower. It also offers us a tremendous opportunity to increase the recognition of hydropower as a vital and increasingly important renewable energy resource.

We have set a clear course for the future. With our newly created Ocean Tidal and New Technology Council, NHA has a forum in which our members can exchange ideas and learn from each other. We can focus our campaign to improve the regulatory environment and concentrate

our efforts to secure new research and demonstration dollars to support this start up industry. Building on the demand for clean energy sources, we can attract a new interest to reinvest in more traditional technology. We can expand the support for small hydropower and secure the policy incentives to build these projects once viewed as too marginal and unworkable.

While it may be hard to see, we are in the process of building a new hydropower industry – one that includes conventional and non-conventional technologies with renewed public interest and support. What an exciting time to be part of this wonderful industry!

Key to our future is the ability for industry to define its role in new clean energy programs, particularly climate change. The industry needs to better understand this issue, its impacts and its role as a solution. As more claims are made about reservoirs and emissions, we need to study the issue carefully and arm ourselves with the facts. We need to aggressively engage in the debate and enthusiastically promote hydropower's benefits.

Our pathway to building this new future is clear. We need to step up our game – expand our resources to increase our communications programs, our advocacy work, and our outreach on a far broader scale. NHA is up to the challenge. With the support of our members, we can rise to the occasion and build a far greater future than we could have imagined just a few short years ago. Hydropower, in all of its forms, offers us a POWERFUL new future.



Linda Church Ciocci
Executive Director

YEAR IN REVIEW 2006

ADVANCING ALL FORMS OF HYDRO

In 2006, NHA built on its accomplishments and expanded its policy work into new arenas. Repositioning hydropower for a new era of growth, the Association expanded its mission and stepped up its outreach to build new alliances.

The NHA Board of Directors recognized the importance of new technologies and the need for federal support.

To encourage this new sector of the industry, the Board took a bold step in early 2006 and redefined NHA's role to advance the development of hydropower in its broadest sense – conventional and non-conventional – embracing hydrokinetic, tidal, conduit and ocean energy.

NHA's first major action in support of this new direction was to create a council on new technologies to advise our committees and provide guidance as the Association embarks on this new endeavor. The Ocean, Tidal and New Technologies Council is a resource for technical and regulatory expertise and is comprised of members representing investor-owned and public utilities, independent power project developers, and equipment suppliers and consultants.

The council, working closely with the Regulatory Affairs Committee, played a pivotal role responding to the Federal Energy Regulatory Commission's technical conference on new hydropower technologies in December. The conference was the first of its kind for FERC, and explored the financial, environmental, and regulatory issues from various perspectives. Some NHA members and staff attending the conference spoke on panel sessions. NHA developed a new technologies white paper that was submitted in the conference docket.

AFFECTING PUBLIC POLICY

NHA continued to dedicate its efforts to protecting hydropower and promoting its value, growth potential, and benefits as a preferred energy source on Capitol Hill, among government agencies and in the courts. And as big changes came to Capitol Hill after the November 7 elections, NHA continued to focus on its legislative agenda.

Throughout 2006, NHA briefed Congress on the major contribution that hydropower could make in the nation's quest to reduce greenhouse gases and mitigate global climate change through better utilization of existing facilities, hydro at non-hydro dams, and the use of new technologies including ocean, tidal and kinetic energy. NHA also advocated for increasing financial incentives to promote the adoption of these clean renewable energy resources.

PTC and CREBs

NHA met with staff from the Senate Energy and Natural Resources Committee, the House Energy and Commerce Committee, the House Ways and Means Committee, the Joint Committee on Taxation, the House Appropriations Committee, various staff from individual congressional members' offices and the Administration. The message: The PTC and Clean Renewable Energy Bonds programs must be expanded and extended long term. In December, the Congress took the first step in this direction when it passed and the President signed a one-year extension of the programs through 2009.

EPAAct 2005 Follow-up

NHA testified before the Senate Energy and Natural Resources Committee on the hydropower licensing reform provisions contained in EPAAct 2005 last May. NHA stated that the provisions are working and will result in increased energy production and energy savings. NHA's testimony was endorsed by the American Public Power Association, Edison Electric Institute and the National Rural Electric Cooperative Association. The Department of Interior also testified favorably regarding the provisions, noting that license settlements continued to be negotiated and approved.

Hydropower R&D Funding

On hydropower R&D, NHA worked hard in 2006 to secure \$4 million in the Senate Appropriations Committee for the R&D program. The \$4 million includes funds for both conventional hydropower and the new technologies. Unfortunately, Congress did not finish work on the

2007 appropriations process. The continuing resolution that funded the government for the rest of the year provided no direct language requiring the Department of Energy to support the program. The Administration also proposed no funding in its fiscal year 2008 budget request. Clearly much work remains to rescue the program.

Other Congressional Outreach

Other NHA actions to promote Congressional awareness of hydropower during 2006:

- Submission of testimony to the Senate Energy and Natural Resources Committee on its Climate Conference initiative. NHA explained how hydropower can play a role in a national program to reduce greenhouse gases.
- Participated in a meeting of the Renewable Energy and Technology task force of the Democratic Steering and Outreach Committee, with Senators Hillary Clinton (D-NY) and Marie Cantwell (D-WA). The Association discussed hydropower's role in helping the United States reduce its dependence on foreign oil and increase renewable energy production.
- Attended a workshop for House Republican energy staffers and gave a presentation on hydropower. NHA's address covered the basics of the industry and was intended to educate staffers unfamiliar with the hydropower resource.
- NHA President Dave Youlen met with Representative Mark Udall (D-Colo.), chairman of the House Renewables Caucus, as well as other members telling them "industry can do more if the PTC is extended without delay." Youlen provided Congress with an overview of Brookfield Power's plans for building that year and briefed it on those projects remaining on the drawing board because of the credit's short-time window.

ADVOCATING REGULATORY IMPROVEMENTS

NHA's work with the federal agencies also promotes hydropower and policies that further its growth and vitality. NHA communicates regularly with the Federal Energy Regulatory Commission, the Department of Energy, and other federal agencies to advance the industry's interests.

FERC

NHA has traditionally built a strong working relationship with FERC to improve hydro licensing. This continued on July 14 when the Senate confirmed by unanimous consent the appointments of Philip Moeller, Jon Wellinghoff and Marc Spitzer to the Commission. With the approval of the three new commissioners, FERC, for the first time in several years, has a full complement of members.

Licensing Settlements

At the first meeting to include the new Commissioners, FERC unanimously agreed to issue a policy statement on hydropower licensing settlements. The policy statement was intended as a guidance document for licensees and other participants in hydropower licensing proceedings with a goal to assist parties in determining which conditions are appropriate for inclusion in settlement agreements.

NHA submitted comments on the policy in November, and thanked the Commission for its continued support of settlements. But NHA also stressed the need for flexibility in any policy statement as each hydropower facility and settlement is unique. NHA will continue to monitor FERC's implementation of this new policy.

First Hydropower PTC Project Certified

The incorporation of hydropower in the PTC was a major legislative priority in 2005. After much hard work, the Association achieved its goal to secure tax incentives for hydropower as part of EPAct 2005. PacifiCorp made history when it became the first hydropower producer certified to receive the PTC under the new law. Since then, several projects have been certified by FERC resulting in much needed new hydropower generation coming on line.

FERC/Industry Dialogue on Annual Charges

With industry members expressing confusion over FERC's process for determining and calculating annual charges, NHA worked with commission staff to address concerns. NHA opened a dialogue, facilitating communication through conference calls and meetings between FERC and the industry to answer members' questions.

Department of Energy

NHA has worked with the Department of Energy to encourage greater support for hydropower research and development.

The Association has long held that significant growth potential still exists in the United States. A report released by the DOE's Idaho National Energy Laboratory (INEL) last January offers important, tangible support to this position. INEL studied growth potential for the last several years, and its study reports that 18,000 MW of potential hydropower is available at low head or small projects at 5,400 locations across the United States.

The intensive scrutiny the study placed on environmental factors gives tremendous weight to the industry's claim that hydropower project development and the health of America's rivers are not mutually exclusive.

To build on this effort, this fall NHA initiated a study with the Electric Power Research Institute to further refine DOE studies and report potential growth by category. The study reviews growth potential for conventional hydropower and new hydrokinetic, ocean and tidal hydropower technologies.

Additional Federal Agency Efforts

- Responding to the Environmental Protection Agency's June 7 Notice of Proposed Rulemaking, NHA filed comments supporting the EPA's proposal to codify in its regulations an exclusion for water transfers under the Clean Water Act's Section 402 National Pollution Discharge Elimination System permitting program.
- Filed comments with the Departments of Interior, Commerce and Agriculture on the interim rules implementing the hydropower licensing reform provisions of EPLA 2005. While supporting several key aspects of the rules, NHA also raised issues of concern and recommended modifications.
- Filed comments with the Department of Interior's Minerals Management Service on development of energy resources on the outer continental shelf (OCS). NHA outlined several guiding principles necessary to fully encourage ocean energy development on the OCS.
- Participated in the development of the Department of Homeland Security's National Infrastructure Protection Plan, submitting comments on the proposed plan. In its comments, NHA raised several issues of concern for the industry. These included the use of the DHS's RAMCAP methodology for vulnerability and risk assessments – an untested protocol within the hydropower industry, the imposition of new standards on hydropower asset owners beyond what FERC already

requires, and the lack of security within DHS of critical infrastructure information it seeks from asset owners.

- Filed a letter with the Department of Interior's Fish and Wildlife Service expressing concerns with some of the data on American eel populations may not be reliable and supported additional data collection. The service was reviewing the status of the American eel to determine if Endangered Species Act listing was warranted. The service recently ruled that the eel should not be classified as an endangered species.

REACHING OUT TO THIRD PARTIES

NHA has understood the importance of a productive working relationship between government agencies, key stakeholders and the industry. Because of this, the Association regularly reaches out to these constituents.

- Met with ocean energy interests at a special roundtable hosted by the Ocean Renewable Energy Group and the Canadian consulate. NHA spoke to the importance of growing all forms of hydropower including in-stream, ocean and tidal power, and the need to secure appropriate public policies to support that growth.
- Worked with the Consumer Energy Council of America (CECA) to secure recognition of hydropower's importance to the nation's energy portfolio. In its May 2006 report titled "Fueling the Future: Better Ways to Use America's Fuel Options," CECA highlights hydropower's future growth potential and calls on Congress and the states for financial incentives to further this growth and support new R&D programs.
- Promoted the renewable aspects of hydropower at several important industry and policy conferences including PowerGen Renewable Energy and the Ninth Annual Renewable Energy and Energy Efficiency Expo on Capitol Hill.
- Continued to work with the Dam Sector Coordinating Council. The council is a group of industry professionals established to provide governmental agencies counsel on dam safety and security issues and to develop a national infrastructure protection plan.
- Coordinated with the United States Society on Dams to hold joint meetings last fall, creating reciprocal opportunities to share information between the two organizations and their members.

- Continued to work with the Business Council for Sustainable Energy to help promote hydropower as a source of renewable and reliable energy in forums such as the regional greenhouse gas initiative in the northeast. NHA also commented on the proposed implementation rules issues by some of the participating states.
- Worked with the American Society for Testing and Materials to ensure hydropower's interests were considered as it develops a standard practice for the environmental performance of electric power generation facilities. This standard provides decision makers verifiable environmental performance data on energy resources.
- Secured favorable consideration and recognition of the importance of hydropower by the Western Governors. In its Clean and Diversified Energy Committee report, the Western Governors' Association calls on Congress and the states to further tax policy and re-investment in hydropower, ocean energy, tidal power and hydrokinetic energy. The report also calls for federal and state support of new R&D to advance these technologies.

BEFORE THE COURTS

NHA has been involved in several court proceedings over this last year, including filing a case at the Supreme Court. NHA took an active role in several cases in the lower courts and continued monitoring important and relevant cases to the industry.

The Supreme Court Decision

In a decision issued May 15, the U.S. Supreme Court unanimously affirmed the ruling of the Maine Supreme Judicial Court, requiring hydropower projects to receive Clean Water Act Section 401 certification. In *S.D. Warren vs. Maine Department of Environmental Protection*, the Court held that "because a dam raises a potential for a discharge, Section 401 is triggered and state certification is required." The decision essentially codifies a 30-year industry practice and should not significantly affect "on-the-ground" operations of hydropower projects.

NHA in 2005 filed an amicus brief in support of *S.D. Warren*. Unfortunately, the Supreme Court did not comment on federal/state conflicts in hydropower relicensing. NHA had hoped the Court would weigh in and settle the issue of inconsistencies that occur between a state

Section 401 process and federal policy or federally imposed conditions.

U.S. Ninth Circuit Court of Appeals

NHA filed an amicus brief in February, in the case of *California Sport Fishing Alliance, et al. vs. FERC*. The case involved whether project operations under a license with a reopener clause constitutes agency action requiring Section 7 consultation under the Endangered Species Act. The court ruled that ESA consultation was not required in the case.

U.S. District Court for the Western District of Washington

The court ruled in October in favor of the Departments of Agriculture, Commerce and Interior and upheld the interim final rules implementing the hydropower licensing reforms contained in EPAAct 2005.

Interest groups challenged the regulations on two fronts, arguing that the departments violated the Administrative Procedures Act (APA) by issuing the interim final rules without prior public notice and comment. They also argued the regulations should be set aside under the APA as arbitrary, capricious, or contrary to law because the rules result in an impermissible retroactive application of EPAAct 2005 provisions to hydropower licensing proceedings pending at the time of the law's enactment.

The departments prevailed on both counts, and the agency's rules were upheld.

COMMUNICATING TO MANY AUDIENCES

NHA has worked diligently to tell hydropower's story to various audiences in a variety of ways. It delivered the hydropower industry message to the media, stakeholders, and other important audiences. Members are also kept up-to-date concerning important industry news and events.

- Worked with the general media and trade press to tell the hydropower story, including its growth potential, need for economic incentives, climate change benefits, R&D needs, and dedication to stewardship and protection of the environment.
- Published the bi-weekly *NHA Today* newsletter, the Association's primary membership communication vehicle. In today's information overload environment, *NHA Today* presents pertinent information in a quick, easy-to-read, and detailed format.

- Redesigned the OSAR and Hydro Achievement Awards programs to simplify the application process, refocus its vision, and reflect the inclusion of all water energy resources. The new awards program, introduced in 2007, merges the existing programs and is now called the Outstanding Stewards of America's Waters.
- Began a major redesign of NHA's website. When completed, the site will offer up-to-date information on Association business, current industry information, and will serve as a one-stop shop for everything hydro.

NETWORKING WITH OTHER MEMBERS

NHA created events that bring the industry together to share experiences, learn from each other and to celebrate achievements.

- Produced one of the industry's premier events, the NHA Annual Conference. A high powered meeting, the conference highlights included speeches from Senators Pete Domenici (R-NM), Larry Craig (R-ID), Gordon Smith (R-OR) and FERC Commissioner Suedeen Kelly.
- Hosted e-mail lists that allow NHA special interest subgroups to share information, comment on current events, and offer input on challenges and opportunities.
- Held the Hydraulic Power Committee's annual fall retreat in Jackson, California. This meeting allowed



FERC Commissioner Suedeen Kelly addresses the NHA Conference.

HPC members visit PG&E's Salt Springs project during their fall meeting.



committee members from around the country to get together to share best practices, problem-solve, and discuss operations and maintenance, compliance, safety and security issues.

- Held roundtable discussions of the hydropower industry's legal community to discuss cases and issues important to the industry.
- Expanded the regional meeting program in 2006. Through events in Sacramento, Portland, the Twin Cities and Philadelphia, NHA was able to provide a platform for over 200 industry professionals to focus on issues specifically relating to their business operations.

ACHIEVEMENTS IN THE HYDROPOWER INDUSTRY



Mike Murphy, left, of E/PRO presents Ron Corso with the Henwood Award.

Henwood Award

Ronald Corso, a 48-year veteran of the hydropower industry, was the recipient of the 2006 Dr. Kenneth Henwood Award, the industry's highest honor. Corso is senior project manager

at Mead & Hunt, where he has worked since 1995. He previously worked for 37 years at FERC. During his almost four decades of service he had – at one time or another – supervised every facet of FERC's hydropower program.

Hydro Achievement Awards

Three hydroelectric power producers were awarded National Hydropower Association Hydro Achievement Awards.

Public Education - Chelan County PUD for its River of Power Program

Technological Solutions Award - Grant County PUD for the installation of an Advanced Hydropower Turbine at its Wanapum Dam

Recreational Stewardship Award - New York Power Authority for its St. Lawrence-FDR Project

Outstanding Stewardship of America's Rivers

Seven hydropower projects were recognized in 2006 for their outstanding environmental stewardship as part of the 10th-annual "Outstanding Stewardship of America's Rivers" report. Those selected illustrated hydropower's ability to balance environmental stewardship and the production of a domestic source of climate-friendly, affordable, and renewable electricity.

NHA WELCOMES ITS NEWEST MEMBERS

360 Training L&K International
 3TIER Environmental Forecast Group
 American Governor
 Black & Veatch
 Chant Construction
 Cianbro Corporation
 George K. Baum & Company
 Good Company Associates
 HDR Engineering
 Hydro Consulting & Maintenance Services, Inc.
 Hydro Green Energy, LLC
 Hydro Power USA LLC
 Hydro Tech, Inc.
 Northwest Hydraulic Consultants
 R. W. Beck, Inc.
 Solomon Associates
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