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Fifth Power Plan/November 2004/Comments/121

November 19, 2004

Steven L. Crow
Executive Director
Northwest Power and Conservation Council
851 S.W. Sixth Avenue, Suite 1100
Portland, OR 97204

SUBJECT: Draft Fifth Power Plan

Dear Mr. Crow:

PacifiCorp generally supports the draft of the Council's Fifth Power Plan distributed on September 24. The plan emphasizes conservation, demand response and wind resources. PacifiCorp shares the Council's support of these resources. The Council and its Staff have responded to comments made during the development of the draft, notably those related to the treatment of Independent Power Projects (IPPs). This responsiveness has made the plan a better document.

PacifiCorp has several observations and suggestions related to the draft plan. The Council asked, beginning on page ES-20, that commenters address certain specific issues. PacifiCorp's has structured its comments along the lines requested.

Is the choice of the least-risk plan reasonable?
PacifiCorp agrees with the Council's judgment that it can be worthwhile to reduce risk even at the cost of higher expected cost. Risk harms both utility customers and utility shareholders. While risk is a significant consideration, there is a limit to how much the region should "pay" for reduced risk. The draft plan clearly explains this tradeoff and the basis for the Council's choice of the least risky plan. PacifiCorp agrees with this regional selection.

The Council's analysis shows that regional portfolios that do not include enough new resources to meet growing long-term power needs expose the region to market price risk.

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The council does not select such regional portfolios even though they may have low cost. For an individual utility as well, this is generally a sound policy. The application of this policy to an individual utility, however, may be different from its application to the region, particularly in the near term. For the region, the draft plan delays construction of major new generating facilities until loads have grown to absorb the existing surplus of independent power projects. To utilities, these independent power projects are a source of market-priced power and are therefore risky. This difference is further discussed in the section of these comments related to independent power projects.

The Council's analysis also shows that regional portfolios that increase the use of natural gas are riskier than portfolios that rely on conservation, wind, and clean coal. This too appears to be a reasonable conclusion for the region as a whole, but it may not apply to an individual utility. The differences between the region and individual utilities are addressed at several places in the draft plan, particularly on pages ES-17 and 7-23. These passages recognize that utilities as a whole are deficit while the region is surplus. They also recognize that a utility's existing portfolio may lead it to choose more gas-fired generation. These are important passages in the draft plan and should be retained.

How could the Council improve its treatment of risk? Are there elements of uncertainty which have been overlooked that would be significant enough to change the conclusions of the plan?

The draft plan is based on an extensive and technically sophisticated analysis of stochastic and scenario risks. There are, of course, many risks associated with long term power planning and not all of them can be quantified and analyzed. Some of these are big, imponderable industry transformations. The implications of these are hard to identify – even directionally. A type of risk that falls between statistical risks and imponderables is the development risk associated with newer technologies. The draft plan emphasizes newer technologies – in its conservation measures, its reliance on demand response, in the large-scale development of wind power, and its preference for clean coal technology over gas. Indeed, the draft plan can be read as a call to action directed at regional development of these promising newer resources. PacifiCorp supports this call to regional action and believes that it is an important function of the Council's plan. However, there are risks associated with newer technologies. The draft plan does not, and indeed probably cannot, quantify those risks.

PacifiCorp suggests two changes to the draft plan that would recognize the development risk inherent in it:

- The plan should refer to its preferred approach not as "least risk" but "least statistical risk."
- The plan should recognize, perhaps in the passages cited earlier in these comments dealing with the differences between utilities and the region, that the forces driving utilities to

develop more generating resources than indicated in the plan provide a benefit to the region because they help diversify the region away from development risks associated with newer resources.

Is the call for aggressive and sustained conservation appropriate and achievable? Are there changes in policies or implementation practices that would improve the ability to achieve the conservation?

PacifiCorp believes that the Council's regional estimates of achievable conservation potential are generally reasonable. While precise comparison would be extremely difficult, the Council's estimates appear consistent overall with PacifiCorp's estimates for its service area. Since the Council's first power plan, utility estimates of conservation potential have generally converged with the Council's estimates. This has been due in no small part to the Council staff's fine work in this area.

The importance of conservation in utility and regional resource plans puts the focus on implementation. PacifiCorp has three suggestions regarding the acquisition of conservation:

- Bonneville's Conservation and Renewable Discount (C&RD) program should be retained. This program encourages conservation and renewable resource programs that are appropriate to each utility. Utilities favor the program and it should not be replaced by centrally mandated activities. The Council should indicate support for the C&RD program in Chapter 12 on implementation.
- The Council should actively monitor the amounts of conservation acquired by the Energy Trust of Oregon and the Northwest Energy Efficiency Alliance. These organizations are pivotal to the acquisition of conservation, particularly in Oregon, PacifiCorp's largest Northwest jurisdiction. Monitoring of regional organizations would be a valuable service that the Council is uniquely qualified to perform.
- Acquisition targets should recognize the economic difference between lost-opportunity and deferrable conservation. Deferrable conservation programs are those aimed at actions like changing a light bulb that could occur now or in the future. Since the choice with such programs is between paying for savings in one year or paying for savings in another year, programs should be governed by the current value of the savings. Lost-opportunity conservation programs include codes, standards and other programs aimed at new buildings and appliances. Such programs acquire savings that can generally not be acquired in the future. They should be based on the long-term value of the savings. It is not clear how, if at all, the Council's conservation acquisition targets reflect this difference.

Are the estimated quantities and costs of demand response reasonable? Is the development and use of demand response an appropriate role for utilities? Can it be counted on as a firm capacity reserve?

Demand response tools are important when a utility has peak load issues. They can be critical if market prices spike as they did in 2000/01 or if the system comes under stress due to forced

outages. PacifiCorp supports the Council's emphasis on these programs. We have experience with a number of demand response programs. On the east side of our system tight supplies have made them a priority. We also have contingency programs in place for the western side of our system, an area where we do not presently face peak load issues. The Oregon PUC staff has been particularly supportive of demand response programs. Here is a brief summary of our demand response programs:

- Power Forward. This program seems less formal than other programs but it can really work. Under this program, PacifiCorp coordinates with the Utah Energy Office and other electric utilities in Utah to provide media alerts related to the power supply situation: green/yellow/red. Customers reduced load as much as 70 MW in 2003 on some yellow alert days, although results were not uniform. We achieved little or no curtailment in a few instances, probably because the media network missed or neglected to disseminate the request for a Yellow Alert.
- Energy Exchange. Under this program, PacifiCorp pays a customer to reduce consumption on a day-ahead basis. PacifiCorp posts a price for curtailment and participating customers can choose to accept it or not. The posted price is generally based on market prices, although we could post a higher price if, for instance, the need was caused by facility outages. The program started during the energy crisis, when we posted high prices and received considerable response. It is still available on both sides of our system. Last summer we posted prices as high as $98/MWh in Utah and received load reductions of 5 megawatts on some days and next to nothing on others.
- Irrigation load control program. PacifiCorp presently operates a direct load control program for irrigation customers in Idaho. PacifiCorp pays participating customers a monthly amount and, in return, customers allow the Company to cut some of their service for specified periods of time. Customers are quite positive about the program. It has achieved a 15% participation rate and cut peak loads by about 35 MW at a total cost of under $1 million.
- Cool Keeper. PacifiCorp operates a direct load control program for residential and small commercial air conditioning customers in Utah. Last summer we had over 30,000 participants in the program. Our target is to control 90 MW of load by FY 2007.
- Interruptibility. PacifiCorp has interruptible service agreements with some of its largest customers. These provide that service to the customer can be interrupted for specified numbers of hours per year. PacifiCorp has had such agreements for many years.
- Time-of-use (TOU) prices. PacifiCorp has on/off peak pricing in some tariff schedules in all states. TOU price offerings are available to 40 percent of our retail customers across six states. Generally, residential programs are less cost-effective than programs for larger customers because of metering costs. We have had, however, residential on/off-peak prices in Idaho for many years. A higher customer charge recovers the extra metering cost. One-third of eligible customers participate because of the low off-peak energy price. We also have a residential TOU pricing options in Oregon and Utah, although these programs are more complicated and fewer customers have participated.

Based on this experience, it is difficult to estimate how much impact demand response programs can ultimately have on peak loads. Certainly further work is appropriate. We hope that the Council's plan will lead other utilities to improve their capabilities in this area and lead to program improvements which could, in turn, be applied in our own service area.

Are the estimates regarding wind development reasonable? Can the uncertainties regarding these estimates be resolved with limited commercial scale development in the near term?

There is clearly substantial potential for wind generation. PacifiCorp recently issued an RFP for renewable resources and the volume of responses indicated that amounts consistent with the draft plan could be installed. Issues related to wind generation include transmission and the ability to integrate a large amount of wind into the system. The Council's Action Plan calls for the development of 250-500 MW of wind generation over 5 years. This action should provide substantial information and represents a sizeable fraction of the 1,000-1,500 MW of wind included in the plan over the long term.

Cost-effectiveness of the wind resource is substantially affected by the Federal renewable resource production tax credit. PacifiCorp's evaluation of wind proposals demonstrates that the tax credit makes a material difference for wind projects. The future of the credit is uncertain. At present, it extends only through 2005. PacifiCorp suggests that the Council advocate for a longer extension of the production tax credit. Both the level of the credit and its certainty are important.

Are the assumptions regarding global climate change policy reasonable for exploring the effects of possible future policies?

It is reasonable and prudent for resource plans to take into account potential added costs associated with carbon dioxide (CO_2) emissions. PacifiCorp's resource plan assumes that future CO_2 emissions will incur an added cost of $8/ton. This magnitude seems roughly consistent with the results of the Council's stochastic analysis. PacifiCorp expects to continue using the $8/ton assumption in its new resource plan, now under development.

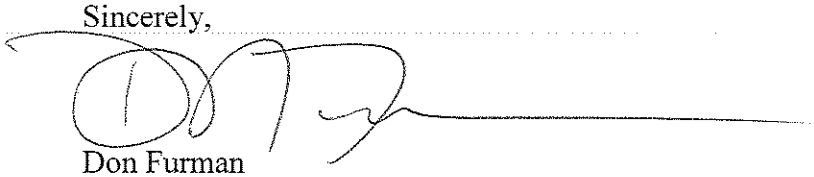
Is it appropriate for the plan to support ongoing collaborative processes in the region, rather than proposing specific solutions to issues related to transmission and to resource adequacy?

It is entirely appropriate for the Council to support collaborative efforts rather than advocate specific solutions. Particularly regarding transmission, issues will not be resolved unless many parties agree and advocacy by the Council seems unlikely to facilitate agreement. Constructive proposals are always helpful, of course, but developing such proposals would probably require a substantial commitment of staff time. Transmission issues are not a central part of the Council's mandate.

Is it appropriate for the plan to consider independent power plants as resources available to the region from which the region may purchase at market prices?
The Council's treatment of IPPs is reasonable in the context of this regional plan. The use of market prices is more realistic than would be an analysis based on cost. Including uncontracted IPPs in the existing resource base reflects the adequacy of supply in the region as a whole. However, including uncontracted IPPs in the Council's plan creates a systematic difference between the region and the utilities in it, including BPA. The Council does not plan to add new resources until the existing regional surplus, including uncontracted IPPs, is exhausted. For individual utilities, however, adding new resources may be entirely reasonable. If PacifiCorp needed resources in the Northwest, we would issue a request for proposals (RFP.) An uncontracted IPP would be able to bid, as could an independent developer who proposed to construct a new plant. An existing IPP project would be selected only if it provided the most value. This may well not occur. Existing plants can present transmission challenges, involve risks associated with credit, and pose other issues. The Council's plan should recognize that selecting a new plant rather than an existing IPP is a matter of economics rather than the size of the surplus.

Thank you for this opportunity to comment on the draft plan. If you have questions, please feel free to contact Gordon McDonald at 503-813-6071.

Sincerely,



Don Furman
Sr. Vice President, Regulation and External Affairs

c: Council Members