

INDUSTRIAL
CUSTOMERS OF
NORTHWEST
UTILITIES

KEN CANON
EXECUTIVE DIRECTOR

November 17, 2004

Via e-mail and U.S. Mail

Mark Walker
Director of Public Affairs
Northwest Power & Conservation Council
851 SW 6th Avenue, Suite 1100
Portland, OR 97204-1348

**RE: Comments of Industrial Customers of Northwest Utilities on the Council's
Draft 5th Power Plan**

Dear Mark,

Industrial Customers of Northwest Utilities (ICNU) is a regional industrial trade association based in Portland, Oregon. ICNU represents its members' electric power interests in regulatory, legislative, and power planning forums. A membership list is attached. ICNU was created in 1981 and has participated extensively in regional power planning efforts as well as the similar integrated resource planning efforts of the region's investor-owned utilities.

Regional Power Planning Versus Current Utility Realities

The Council has the unenviable task of trying to contort the antiquated regional power planning model established in the 1980 Regional Power Act with the very different legal and institutional structures facing all of the utilities in the region, including BPA. The Regional Act specifies that the Regional Plan shall set forth a general scheme for implementing conservation and resources "to reduce or meet the Administrator's obligations". If BPA follows the Council's recommendations, BPA will allocate its existing system and will not acquire the output of resources to meet load growth or new loads. Therefore, the Administration's obligations will be frozen, with any load growth obligations being served via bilateral, resource-based contracts.

While the Draft 5th Plan shares many elements with previous plans (a regional focus, conservation and renewables), it does not adequately reflect the current utility realities in the Northwest. Much has changed with the implementation of

the 1992 Energy Policy Act. The 1992 EPA opened up the wholesale transmission system and helped to create a more vibrant wholesale market. This has created more utility competition and less willingness to share information or to operate regionally.

(503) 239-9169 FAX (503) 239-0466

825 N.E. MULTNOMAH, SUITE 180
PORTLAND, OREGON 97232-2185

Changes in utility ownership have also contributed to a focus less on the region and more on individual utility needs. While this shift was first noted in the 1986 Plan, the Council's Draft 5th Plan does not well integrate this shift into its planning process.

The Plan states the obvious when it notes (in several places) that individual utility plans may differ from the Council's Plan. To address this growing dichotomy, the Council should have an open discussion in this Plan of the value of the regional planning process and suggestions for how this process should be transformed. In addition, the Council should provide specific guidance to changes in its Action Plan that would result from the cumulative affects of such differing utility actions, especially in the near term. For example, if the Council Plan assumes a surplus until 2012 and utilities take actions in the near term (i.e. building Port Westward, etc.), how would that change the Council's Action Plan?

Council Has A Unique Role Regarding Both Fish and Power

There are areas in which the Council can add value to regional decision making. The Council is unique in having dual roles involving both fish and power. The Council should utilize this unique role to better explore some of the tradeoffs between renewable and clean hydro power production and fish recovery. Wind development is a good example. The Plan calls for the development of over 5000 MW of wind during the planning period. It also directs BPA and the utilities to develop products for the firming and shaping of wind. The short-term action plans calls for a "confirmation" plan for large scale wind farm development. These actions are premature. It is assumed that the region's hydro system has an unlimited ability to firm and shape intermittent wind power, and at a low cost. During this time of surplus and before the region needs to build additional large scale wind facilities, the Council should create an action plan element that would direct the Council, BPA, utilities, wind developers, and fish advocates to examine the capability of the hydro system to shape and firm intermittent wind power. Part of this determination would be the cost of firming and shaping increasing amounts of wind power. Accommodating 5000 MW of wind power could affect river operations for fish, particularly in months where minimum flows are necessary for fish. This could leave the system unable to take in wind production, especially in a critical water period. The Council can't assume we live in two never-meeting worlds – one for fish and one for wind. If the river cannot accommodate wind, then combustion turbines will likely be used to back up the missing wind production – canceling out many of the advantages of wind.

Conservation

The Council's approach to conservation has substantially changed over time. In past Plans, conservation was heralded as a flexible resource that can be ramped up and down according to the power needs of the Region. Utilizing this approach, the Region still acquired close to 3,000 aMW of conservation since 1983 through utility funded activities. (For some reason, there never seems to be an accounting for

conservation solely funded by the customer). Now, even in a time of a growing surplus, the Council is suggesting a sustained and aggressive approach to conservation. While such sustained conservation development is seen as a hedge against risk, at what point is the region's surplus so great that it is no longer practical to impose increased near-term costs on the region's ratepayers to build resources that are not currently needed?

ICNU supports efficient and cost-effective conservation programs. However, ICNU also strongly believes that conservation should be treated as a resource that is acquired when needed and at levels appropriate to the need. If conservation was truly approached as a resource, then perhaps the 2,800 aMW called for in the Council's Plan would be achievable. However, there is a considerable difference between the Council's planning number and the manner in which conservation is actually acquired in the field. Conservation programs are not designed solely to maximize the cost-effective acquisition of a resource. That singular focus is compromised by social concerns (equity), political implications, and customer service objectives. There is nothing wrong with bringing these considerations into play as part of conservation acquisition. It does, however, bring into play whether these limitations have been accounted for in the Council's 2,800 aMW of proposed conservation acquisition. We do not believe the 85% penetration rate appropriately accounts for the difference between the Council's planning approach and the actual implementation approaches (and limitations) used in the region.

Furthermore, we recognize the inherent difficulty of actually measuring the totality of the region's conservation achievement. While we may know how much we spend on conservation programs and how much we assume to "save", the lack of a "meter" to know how much conservation is available at any specific time may be one reason the utilities are seeking more resource diversity than is shown in the Plan.

We do not support conservation solutions that only focus on increasing conservation acquisition budgets (Action CNSV-4, Action CNSV-5, Action CNSV-7, Action CNSV-10, and CNSV-13). Reasonable budgets (which we believe most utilities already have) operate to drive a focus on conservation that has the most value. We do support efforts to reduce the dollar cost per aMW of conservation. Unnecessary increases in conservation funding pushes up near-term rates at a time when ratepayers are already struggling with high electric rates (which should motivate more customers to take actions on their own, without utility incentives).

We question the value of Action CNSV-3: Develop a strategic plan for conservation acquisition. The implementation roles of the parties listed are already well defined, with the exception of BPA. BPA's conservation role is most appropriately determined in the larger BPA role forum. The region's experience on the development of regional strategic plans (i.e. the 1996 Comprehensive Review) suggests that with four different states and 120 utilities, such an effort will occupy much staff time, but with little practical results. Furthermore, attempting to "share out" the regional conservation target will only cause regional dissension. We do not support "developing a mechanism and funding for regionally administered acquisition and assessment efforts."

Conservation is best accomplished at the local (utility) and state level. Creating additional conservation bureaucracies will only consume funds that otherwise would be available to actually acquire conservation.

We note with some irony Action CNSV-8. In the past, this was a Council contracted function known as Nutrack. After the publication of the first “Green Book” in 1996, the Council contracted for the continuation of this tracking effort, but the contract objective was never realized.

Other options exist to address the barrier discussed in Action CNSV-10 (Lost Revenue). The creation of an entity such as the Energy Trust of Oregon makes conservation a non-utility function for the investor-owned utilities. This is a direct approach to the obvious conflict facing investor-owned utilities – maximizing sales versus conservation. It is clearly a preferred choice over the variety of decoupling schemes that have been foisted on customers. The issue of lost revenues is further compounded by a Council directive to acquire conservation even when the region is surplus. Finally, it must be recognized that if lost revenue recovery is mitigated through extra costs to ratepayers, then these costs must be added to the cost of the conservation resource.

Cogeneration Generating Resource

The Council’s approaches to conservation action items and those action items for cogeneration are notably different. In the conservation area the Council’s Draft Plan is very action oriented (develop, increase, expand, ramp up, etc.). Furthermore, the Council takes a very active role in the planning and oversight of conservation (ACTION CNSV-3, 6, 7, 8, 9, 13). In Action Gen 1-6 the Council’s role is nonexistent and the language is weak. The opportunities for the development of economic cogeneration (CHP) projects don’t have to “surface occasionally during this period” if the Council were to take and expect a more proactive stance on the widespread and cost-effective cogeneration resource. We would urge the Council to take the same approach to cogeneration as it has to conservation. Be consistent. Imagine how the conservation section would be written if it were approached in the same manner as the current cogeneration section.

Thoughts on the Council Role and Regional Planning

We are troubled by the state of the regional planning process that is symbolized by the Draft Plan. The Council’s planning process has now become institutionalized through the use of ever more complex computer models and staff-led advisory committees. As such, the Council runs the risk of producing a power plan that has lost its meaning to many in the region. In this Draft Plan, the Council should take the courageous step of questioning the value of regional power planning and, in fact, its own role in this process. Spending more effort on issues such as transmission and its constraint on “appropriate” resource development, the interaction between power production and fish recovery, resource adequacy, and evaluating different approaches

to conservation acquisition may provide greater value to the region. Turning out an updated and refined version of the 1983 Power Plan every five years may not be a cost-effective value to a region that is much different from the region in the early 1980s.

Sincerely,

A handwritten signature in cursive script that reads "Ken".

Ken Canon

Attachment

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EXECUTIVE DIRECTOR

MEMBERS OF INDUSTRIAL CUSTOMERS OF NORTHWEST UTILITIES

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Boeing
Boise Cascade
CNC Containers, Northwest
Chemi-Con Materials Corporation
Dyno Nobel, Inc.
ConAgra Foods
Eka Chemicals, Inc.
Evanite Fiber
Georgia-Pacific
Grays Harbor Paper, L.P.
Hewlett-Packard
Inland Empire Paper Co.
Intel
J.R. Simplot
Kimberly-Clark Corporation
Longview Fibre
Microsoft Corporation
Norpac Foods
Noveon Kalama, Inc.
Oregon Steel Mills
PCC Structurals, Inc.
Ponderay Newsprint Co.
Shell Oil Products US
Simpson Paper
Simpson Timber
Solar Grade Silicon LLC
Tesoro Refining and Marketing Co.
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