

November 18, 2004

Mr. Mark Walker
Director of Public Affairs
Northwest Power & Conservation Council
851 SW Sixth Avenue
Suite 1100
Portland, Oregon 97204-1348

Dear Mr. Walker:

Please find enclosed Comments of the Montana Large Customer Group (LCG) on the Northwest Power & Conservation Council's *Draft 5th Power Plan*. The members of LCG include Ash Grove Cement West, ConocoPhillips, Holcim (US) Inc., Montana Refining Company, Smurfit-Stone Container Corporation, and Stillwater Mining Company. We appreciate the Council's work on this important topic and the opportunity to comment.

Sincerely,



Donald W. Quander
Counsel to the Montana Large Customer Group

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Enclosure

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COMMENTS OF MONTANA LARGE CUSTOMER GROUP

The Montana Large Customer Group (LCG) is comprised of diverse industrial customers of electric power who purchase their supply directly from the market. These customers include oil refineries, oil and gas pipelines, wood product plants, mines and cement plants, all of whom exercised "choice" under Montana's **Electric Industry Restructuring and Customer Choice Act of 1997**. As direct participants in the northwestern market for electricity supply and transmission services, LCG members are acutely aware of the importance of the *5th Power Plan*. We appreciate the work of the Northwest Power & Conservation Council (NPCC) to promote adequate supply and service.

LCG companies experienced the extreme market conditions of 2000-2001. Several experienced closures or forced reductions due to inadequate supply or exorbitant prices. We can not afford to repeat the experience. LCG companies also have seen the benefits associated with a stable, competitive and innovative market for electricity in our region. Our economic livelihood, depends upon the right *Plan* for the region, as does the economic well-being of Montana and the Northwest

Our present comments are not directed to the methodology of modeling alternative scenarios. We appreciate the complexity of such exercises and the value of testing alternatives. However, we also appreciate the importance of key assumptions. LCG believes the *Draft Plan* relies on several misplaced assumptions, which could prove very costly to customers in Montana and the Northwest. We compliment the NPCC staff on its hard work and the useful information generated, but we will emphasize several specific concerns that could compromise the final *Plan* if not corrected.

- **The *Draft Plan* is overly dependent upon conservation as the critical resource for the region.** LCG members have been very active in pursuing energy efficiency in their industrial operations, prompted by both environmental considerations and solid economics. We agree that more can and should be done. The *Plan* ought to include aggressive conservation measures---but conservation alone is simply not enough. The draft depends too much upon conservation for its success.
- LCG member companies are consumers of electricity, and in some cases direct purchasers of coal; we are not coal producers. Nevertheless, we are very concerned that **the *Draft Plan* significantly understates the value of coal-fired power generation.** This appears to result from unreasonably pessimistic assessments of the cost of transmission and future carbon taxes, and insufficient appreciation for the potential contribution of the vast coal reserves of Montana and the west generally.

- Naturally, the emphasis of the NPCC is on the geographic region of its member states, and particularly the area served by the BPA. **Insufficient attention is given to the current and prospective integration of generation and transmission resources within specific states, on the one hand, and with the larger western region on the other.** The resulting analysis is too much confined to those solutions that are geographically confined to the Northwestern portion of the “I-5 corridor.” But neither the challenges nor solutions can be confined to this limited area, however important the impact of the *Plan* upon the area.
- **The *Draft Plan* should take more account of on-going work on specific transmission alternatives such as the RMATS process.** There is a good opportunity to make concrete and timely progress on upgrading the western transmission system to facilitate additional generation even as work continues on such broader framework as Grid West. Specific priorities and plans that can be realized within an intermediate time frame can be an important stepping stone for the Northwest. Ignoring them not only misses an opportunity, but risks being by-passed by actual developments.
- The *Draft Plan* rightly emphasizes specific supply and service challenges and solutions over generic or philosophical energy policies. Nevertheless, the *Plan* is necessarily a part of larger efforts to meet the resource needs of the West and the United States as a whole. **It is not enough to plan as if the BPA system within the four member states of NPCC is the electric power world.** The economic or “energy” success of the four states (or portions of them) is not possible independent of successful energy development on a broader scope.

NPCC and its participants can not solve this larger puzzle, but should plan as though we are a part of that solution. **We collectively need more conservation and more electric generation within our region to assist in meeting needs within and beyond our states’ (or BPA’s) borders.**

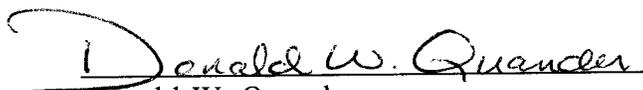
The Montana LCG companies are an important part of Montana’s economy, but a small part of the region’s energy market. However, we are dependent upon that market directly, with no “buffer” if adequate energy supplies are not available at affordable prices. Experience over recent years has taught us the value of conservation, efficient energy management and viable alternatives for power. But these alone are not sufficient if the generating resources are not available.

The risk to our businesses, jobs and local economies of inadequate generation is not symmetrical. We can and do “hedge” our bets, but the risk of inadequate supply or transmission is critical. If we overestimate our energy needs, that will be costly; but if we underestimate those needs, we can be out of business.

Accordingly, our final comment is to urge NPCC to be “conservative” in its *5th Power Plan*. In this circumstance, that means hedging against our collective risk of undersupply by more aggressively emphasizing new power generation, particularly abundant resources and demonstrated technologies of coal, and the supporting transmission infrastructure.

The Montana LCG expresses its appreciation for your consideration of these comments and hopes they will be useful in focusing the substantial underlying work that NPCC and its staff have done. We will try to play our part in contributing to an excellent *5th Power Plan*.

Sincerely,



Donald W. Quander

Holland & Hart L.L.P.

P. O. Box 639

Billings, Montana 59103-0639

Telephone: (406) 252-2166

Counsel to the Montana Large Customer Group