

November 19, 2004

Mr. Mark Walker  
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Dear Mark:

NorthWestern Energy (NWE) thanks the Council for this opportunity to comment on your draft Fifth Power Plan (Plan). NWE appreciates the critical role that the Council fulfills in the region, and seeks to work with the Council to continue its significant contributions to accomplishing the necessary changes in the region's electric industry structure, to facilitate an efficient and reliable system.

The Council's Plan is a very influential document in the region. Many utilities, commissions, energy suppliers, and others use it as guidance in making and reviewing planning and construction decisions for new generation in the region. This broad usage requires that the Plan be as realistic as possible to assure its maximum positive value to the region. By realistic, in the context of these comments, we mean that the changing structure of the regional electricity industry is accurately reflected in the underlying assumptions of the Plan. An accurate reflection of this changing structure is important because it is redefining roles in the region, and the new players, as well as the old players in new roles, need insight into their new responsibilities in a timely manner. The changes in the structure of the regional power industry from one of vertical integration where utilities worked together closely, to a mixed structure where the competitive market is a major source of marginal power for the region, and utilities are wary of the appearance of collusion, makes all participants' roles more difficult.

While an accurate modeling of the changing structure has become more difficult, partially because we are in a rather confused state regarding who is responsible for serving what load, the importance of accurately modeling this reality is directly proportional to the positive value of the Plan to the region. The majority of this confusion stems from BPA's ongoing process

of determining how it will sell the output of the existing Federal System, and how it will serve incremental demands placed on it. Since BPA serves about half of the load in the region, confusion exists over who is responsible for serving perhaps half of the incremental needs in the region. The Plan's load/resource balance calculation suggests that we have time to deal with issue, since it forecasts a surplus for at least several years. But until these decisions are made and memorialized in a manner that is definitive, the uncertainty remains, and the lead time to develop new resources continues to shrink.

This change in industry structure and lack of load serving obligation clarity in the region is cause for a growing element of inaccuracy in the Council's load forecast as well. Obviously, if the load data is not accurate, then the resource need timing will not be correct, and the presumption of time to deal with this critical issue may be overly optimistic. The Council Plan, as it has in the past, essentially serves the region's coincident peak needs. With BPA as the provider for half of the region's marginal needs in the past, the Plan's inherent assumption that the region is served by one "energy service obligated" utility (the utilities that ultimately have to build or contract with the actual resource to provide power) that is able to acquire a portfolio that serves the regional coincident peak and all the other diversified peaks underneath, was a reasonable simplifying assumption. In the new reality, a number of energy service obligated utilities will acquire resources to serve the region's diverse individual demands. The regional load obligations under these two assumptions are considerably different, and it is not apparent that the Plan's forecast has accounted for this.

It is the sum of the non-coincident obligations of the "energy service obligated" utilities that is the regional load that must be serviced. Given that some utilities are summer peaking and most winter peaking, these diverse non-coincident peak obligations are being lost in the Council's coincident peak forecast. This one element could easily mean the Plan's forecast is hundreds of MWs short of the region's actual needs. It might be assumed that the Council's LOLP analysis accounts for this need. However, the LOLP analysis relies heavily on the availability of non-contracted IPPs and imports to obtain reasonable values. Also, the region's transition from a "few energy service obligated utilities" structure to a "many energy service obligated utilities" structure might cause a step change in regional resource need that is not considered in this plan.

Since no resource will be acquired to serve those marginal loads that do not have a definitive energy service obligated utility, the Plan should demonstrate the potential costs to the region of extended uncertainty. For example, if IPPs premise their construction plans on this Plan, and given the load obligation uncertainty, we could find ourselves in a shortage situation sooner than anticipated, due to lack of contracting for new resources.

The Council's 5<sup>th</sup> Plan will be the most important plan yet developed, given its timing in the midst of industry restructuring. Provided it incorporates the considerable uncertainty created by our mixed industry structure, and the unanswered "obligation to serve" and "resource adequacy" questions that continue to hang over the region, it could also be the most valuable and influential. The Plan can provide significant positive value at a critical time to the region, if it defines the potential costs associated with our inability to lead ourselves out of this interminable period of indecision.

Thank you for this opportunity to comment.

Sincerely Yours:

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