Schrepel, Eric

From: Jenkins, Kris
Sent: Friday, November 19, 2004 9:31 AM
To: Lapworth, Heather
Subject: FW: Comment on Draft Power Plan document 2004-12

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From: Marc Krasnowsky [[redacted]]
Sent: Friday, November 19, 2004 9:24 AM
To: Jenkins, Kris
Subject: Comment on Draft Power Plan document 2004-12

Hi --

We've submitted these comments this morning via our Web link, but I just wanted to make sure they arrived on time. Thanks for the opportunity to comment on the Fifth Northwest Power Plan.

Marc
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Comments of the

NW Energy Coalition

on the

Northwest Power and Conservation Council's Fifth Power and Conservation Plan November 19, 2004

Introduction

The NW Energy Coalition (NWEC or "Coalition") is pleased to offer these comments on the NW Power and Conservation Council's ("Council") draft Fifth Power Plan. NWEC wishes above all to compliment the Council and its staff on the rigorous and comprehensive analysis that has gone into this Plan. It once again demonstrates how valuable a resource the Council is to the region. We believe that the methodology the Council used to analyze the region's power system is a model that should be -- and will be -- emulated by utilities and public agencies throughout the country.

In addition to our overall support for the depth and breadth of the analysis used by the Council, we believe the draft Plan contains some relatively large errors and omissions. We will point out a number of these concerns as we answer some of the questions raised by the Council and list concerns raised by Coalition members. We urge the Council to modify and improve this draft as per our recommendations outlined below.

I Resource Portfolio D Not the Best for the Region

In the Fifth Plan draft, the Council chose from four general scenarios (Plans A, B, C and D) for meeting increased region-wide power needs over the next 20 years. Each plan offers a different mix of new resources, and each of these "resource portfolios" comes with an average cost estimate and an assessment of the risk that the particular plan poses to Northwest energy users. The stated objective is to get the plan with the least risk for the lowest cost. NWEC supports this approach and believes that these four scenarios represent the array of resource options while limiting the complexity that could otherwise overwhelm the discussion.

We agree with the Council that each portfolio should meet half the new resource needs with energy efficiency and demand management. As the detailed resource analysis shows, efficiency is the least-cost and least-risky resource in the region.

Plan A would meet the projected 5,200 megawatts of load growth with energy efficiency, demand management and market purchases. A is the cheapest portfolio, based on average assumptions. But it exposes the region to huge risks from extreme volatility in market prices. NWEC agrees that least cost alone must be balanced with risk.

Plan B substitutes about 1,500 average megawatts of new wind (5,000 megawatts of capacity) for much of the market purchases. That costs $238 million more, but reduces risk by more than $1 billion. Thus, the cost per dollar of risk reduction is 22.3 cents -- a fairly reasonable cost for insurance.

Plan C adds the 400-megawatt coal plant. Putting coal in the mix could reduce risk by $133 million compared to Plan B, but at an extra cost of $310 million. We ask: Who would buy insurance costing nearly three times as much as the amount it covers?

Finally, Plan D adds in about 710 megawatts of primarily combined-cycle natural gas-generated power. Compared to Plan B, this portfolio reduces risk $288 million at a cost of $387 million. At $1.34 in added cost for every $1 of risk reduction, this is no insurance bargain.

... **Recommendation:** It seems clear to us that Plan B is the superior choice. It reduces the region's exposure to high market risks at a cost of only about 22 cents per dollar. In Plans C and D, however, the extra costs far outweigh potential benefits. It is unclear to us how the Council justifies selecting Plan D. We urge the Council to rethink its policy choice and select Plan B instead.

The Coalition also thinks the Plan's description of the preferred portfolio D is misleading. The Draft in numerous places describes the need to "build" or "construct" a new coal plant (or gas plant), and therefore recommends (on Page 10 of the Action Plan) plans to procure permits, etc., starting in 2009, in order to be able to begin construction quickly as the need arises. In the text, however, the Council seems to ignore the possibility that a merchant plant may already be in service with capacity to meet the region¹s need. Meanwhile, the Plan's analysis makes it clear that the IPP resources currently available in the region -- but not presently under long-term contract -- can just as well be used to fulfill the Plan. The computer model counts IPP resources not as firm resources for the region, but only as generic market purchases. A utility could just as well sign a long-term contract with an existing IPP coal plant -- Centralia, for example -- instead of building a new one.

... **Recommendation:** The Plan should more clearly explain the role of IPP resources in the modeling, and make it clear that if portfolio Plan C or D is chosen as the preferred portfolio the region may have to acquire a coal or gas plant, but not necessarily build a new one.

II Risk Analysis is Strong Climate Change the Exception

The risk modeling conducted by the Council staff is a welcome addition to resource planning analysis in the region. With the re-birth of integrated resource planning, many utilities in the region will benefit from the use of the significantly more complex risk analysis model developed by the Council. We support most of the uncertainty judgements made by the Council and included in the risk model.

One significant exception is the treatment of climate change risk. The draft Plan does incorporate several different cost estimates for future carbon regulation in the Monte Carlo evaluation. However, this probabilistic approach means that some portfolio scenarios are developed with the carbon risk set at zero. Given current knowledge of global warming science -- in particular the amazing recent announcement of the impact of climate change on the Arctic and the polar ice caps, and the commitment of the West Coast governors to take concrete steps to reduce global warming emissions -- it is difficult to understand the rationale for not including a significant carbon risk value in every scenario.

We believe the Council¹s passive position is in essence a recommendation that the region simply wait for someone else to act to reduce global warming, and then adjust our resource portfolio to minimize our exposure to that penalty. Even the

White House has acknowledged that human-generated carbon emissions are significant and causing a problem. Is the Northwest, with its proud tradition of technological leadership, going to simply wait to see if someone else imposes a tax or regulatory scheme to control carbon emissions? The risk of waiting for "someone else" to make a policy decision is too great. Many businesses have accepted the risk and are taking specific actions to reduce their emissions and foster alternatives with lower emissions. To paraphrase Pogo, "We have met the problem, and it is us." We must all take some responsibility for preventing ecological disaster and we must proactively do what we can to prevent it.

... **Recommendation:** The Council must advocate for the reduction of emissions of greenhouse gases in the electric sector. A carbon emissions cost of at least $12/ton should be included in every alternative plan and future modeled by the Council. Further, the Council should make it very clear that the region does not need to develop any more fossil fuel resources, articulate the benefits of carbon-free resources and outline the policies necessary to accomplish that goal.

III Energy Efficiency is a Highlight

The Coalition strongly supports the Council¹s identification of energy efficiency as the key foundation resource for the region over the next decade. The thorough and conservative evaluation of cost-effective and achievable efficiency potential sets a standard that utilities in the region will rely on for many years to come. We were struck, especially, by the analysis showing how costly and risky it would be to the region if that target were not accomplished.

NWEC appreciates that utility leaders have expressed concerns about reaching the targets in the Council¹s draft Plan and that some will be tempted to sacrifice the goal for short-term rate relief. First, we repeat the mantra that "bills, not rates" are what matters to consumers. The Council identifies a maximum regional rate increase of less than 1 percent to cover the costs of acquiring all the identified efficiencies. And the Council identifies a benefit to the region of $2-2.5 billion in reduced costs. Poll after poll conducted over the years and comment after comment at your recent and past public meetings, reinforces that view: citizens and businesses need lower energy costs; and, energy efficiency is the best way to make that happen -- at an average cost of 2.4 cents/kWh the region has no cheaper resource. Second, the Council has done an excellent job demonstrating that achieving the targets will not be a huge extra effort for many utilities in the region; in fact, the region has achieved similar levels of efficiency investment in past years.

... **Recommendation:** It is critical for the region's consumers, the economy and the environment that the Council not retreat from the efficiency goal. The Council's unique responsibility and role is to keep the region, especially BPA, focused on this task.

... **Recommendation:** The Plan calls for the region to acquire 700 MWs of energy efficiency during the 2005-2009 period. However, Bonneville is intending to ramp up its efforts starting only in the next rate period that begins in late 2006. The Council should make it clear that this lag is unacceptable.

IV Wind Potential Finally Seized

The Coalition endorses the comments submitted by the Renewable Northwest Project. The wind energy component of the resource portfolios might seem aggressive. But when matched against the region¹s wind potential, wind energy developers¹ plans and the wind energy acquisition plans of the region¹s utilities, the draft Fifth Plan¹s wind assessment could be termed conservative. In the Action Plan, the Council recommends adding 250 aMW of wind over the next five years. In fact, Northwest utilities are looking to buy twice that amount of new wind power in 2005 alone.

We do not share the concerns raised by some that the region cannot integrate 5,000 MW of new wind power into the system. The Council¹s analysis matches up well with the integration studies done by many utilities in the region and throughout the West. Integration costs are lower than expected and will remain so given the small percentage of wind in regional mix even over the Fifth Plan¹s time horizon. In fact, utilities already have enough shaping resources in order to adjust to loads that must change from middle of the night to middle of a cold winter morning to the middle of a hot summer afternoon to deal with the level of integration needed for new wind. Plus, as the number, geographical spread and size of the wind farms increases, they will increasingly work together to shape themselves.

... **Recommendation:** Increase the call for near-term wind development in order to eliminate the need to develop coal projects later in the planning period.

V Low-lncome Weatherization Not Highlighted

The draft Plan¹s energy efficiency resource assessment correctly focuses on technologies and applications rather than programs. It does identify significant potential in the residential sector, and we understand that all housing types were evaluated regardless of occupant income. That said, investments in low-income weatherization measures through specific low-income programs have been a vital component of utility and BPA efficiency offerings in the region for years and have been explicitly highlighted in public policy statements at the state and regulatory levels. The region would greatly benefit from a thorough evaluation of the number of low-income dwellings that need weatherization and the cost of capturing the energy savings and other benefits. The Council should use its stature in the region to call on all utilities and BPA to expand their low-income weatherization efforts and target this constituency in need.

In fact, the Council¹s only mention of this issue appears in the Action Plan recommendation CNSV-12:

> Cost-effective conservation acquired as a result of low-income housing weatherization programs has proven to be a useful addition to the region¹s conservation portfolio. Bonneville and utilities should continue to provide support for this activity where **cost-effective** savings are achieved. (Action Plan CNSV-12, page 6, emphasis added.)

It is surprising that the Council would use the term "cost-effective savings" when referring to the low-income weatherization program because most of the utilities in the region have already acknowledged and incorporated the significant non-energy benefits that accrue from low-income weatherization. These utilities use a modified cost-effectiveness evaluation that factors in all the non-energy and social benefits. We note that the draft Plan does include non-energy benefits as they relate to efficiency measures such as clothes washers and sewage treatment efficiency programs. For those measures, water and other savings are included.

 Recommendation: The Council should add a specific public policy recommendation to weatherize all eligible low-income dwellings in 20 years. To support such a recommendation, the Plan analysis should: (1) estimate the potential number of low-income dwellings that need weatherization; (2) include non-energy benefits (health and safety, keeping families from having to move or choose between heating and heating, etc.) in its calculation of the cost-effectiveness of low-income weatherization; and (3) recommend a per-year target for the weatherization of low-income homes.

VI Fish Given Short Shrift

Although the Plan is a power plan, and separate from the Council's fish and wildlife program, power and fish *are* connected. Over the past few years we have seen that when the power system is stressed financially, fish suffer. In 2000-01, a power emergency was declared and fish-friendly hydro operations such as spill were reduced. This year another effort was made to eliminate spill, but it was thwarted by legal action.

The problem is that leaning on the river for both economic benefit and physical reserves is "free" to power users, while acquiring more resources is expensive. Thus the region has long used the river as both a physical and financial reserve to keep rates down. However, the Council is legally required to treat fish and power equitably.

In materials prepared for this draft Plan, the Council developed groundbreaking analysis that calculated a "Loss of Fish Operations Probability" (LOFP) metric for a given level of load/resource balance. LOFP measured the likelihood that BPA would have to lean on the river system to keep the lights on. The idea was that fish shouldn't suffer because of a failure to acquire sufficient resources. Unfortunately, the final draft Plan no longer mentions or measures LOFP.

 Recommendation: The LOFP methodology is an important quantitative tool for ensuring, insofar as it is possible, equitable treatment between power and fish. The Council should include and promote LOFP in this Plan.

VII BPA's Power Supply Role and Adequacy Standards

The draft Plan reaffirms the Council's support for Bonneville's proposal in the Regional Dialogue to limit its role in acquiring new resources and transferring that obligation to more than 100 public utilities. However, this endorsement appears to be made with little detailed analysis of impacts, particularly how the transfer of responsibility affects the likelihood of the Council's Plan being fully implemented.

The draft Plan recognizes that the region has a temporary surplus, but what then? Will BPA and the utilities build enough new resources? Or -- and perhaps just as costly -- will they build too many? In addition, will they build the right resources? NWEC has grave doubts that the region¹s interests will be served by moving away from the one-utility BPA model toward

what is essentially a deregulated model. In our opinion, it will make it much less likely that the Council's Plan will be followed.

In recent months, BPA administrator Steve Wright has called on the region to develop adequacy standards by the end of 2005 that will help alleviate people¹s fears that another energy crisis could occur. Despite this proclamation, the draft Plan merely recommends that decision-makers talk about doing something. By not advocating mandatory standards, the Council fails to take a leadership position on this issue. California recently joined many Eastern U.S. systems in instituting mandatory adequacy standards to ensure that the many players in a large region coordinate their acquisition of new resources. This avoids wasteful "boom and bust" building cycles and reduces the chance of blackouts from lack of resources when market forces fail. Relying on voluntary standards is a recipe for disaster in a world of hundreds of independent market participants.

... **Recommendation:** The Council should include in the final Plan an analysis of whether BPA¹s proposed role in meeting future power supply needs will increase or decrease the likelihood of achieving the Plan¹s recommendations.

... **Recommendation:** The final Plan should advocate mandatory adequacy standards for the region. At the least, its endorsement of BPA¹s new role should be contingent on requiring mandatory standards for any public utility as a condition of its receiving an allocation of the FBS.

VIII Transmission Needs Leadership

The draft Plan recognizes that adequate transmission is needed for wind (and coal) power to get to the Western cities. It also notes that the current system is dysfunctional: there is no good way to get parties together to finance new lines, and no system exists to get full usage from the current network. The Coalition shares these concerns and has been working with the Regional Representatives Group to identify an independent system that would allow the region to move toward solving its transmission problems. Grid West may or may not be the solution. NWEC has not taken a position on Grid West, other than to say that further analysis and study is needed and that some of the cost/benefit analyses should be done by a truly independent party. Rather than fully analyze the transmission needs and solutions the draft Plan calls only for continued collaborative work toward a solution. A more proactive set of recommendations would be useful.

... **Recommendation:** Recently, parties have questioned the need for, and cost of, Grid West. The Plan should attempt to present the pros and cons of these arguments, and take a position on Grid West. The Council should lead, not follow.

Conclusion

Thank you for the opportunity to provide this written comment as well as oral comment throughout the public hearing process. Many community leaders and organizations took the time to review the draft Plan and provide you with comments. We are sure you will give the input significant consideration as you finalize the Plan. If you have any questions regarding our comments, please contact Steve Weiss at 503-851-4054 or Nancy Hirsh at 206-621-0094.

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TAKE ACTION!
The Northwest Power and Conservation Council has released its Draft Fifth Power Plan.
Please submit your written comments by November 19!
Visit: http://www.nwenergy.org/nocoal