

Schrepel, Eric

From: Phillips, Kendra
Sent: Wednesday, October 06, 2004 7:21 AM
To: Lapworth, Heather
Subject: FW: Comments On The Draft Fifth Power Plan

-----Original Message-----

From: Jenkins, Kris
Sent: Tuesday, October 05, 2004 3:28 PM
To: Phillips, Kendra
Subject: FW: Comments On The Draft Fifth Power Plan

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From: Edward Perrotti [REDACTED]
Sent: Tuesday, October 05, 2004 3:28 PM
To: Jenkins, Kris

[REDACTED]
Subject: Comments On The Draft Fifth Power Plan

Dear NWPCC,

Thank you for giving me a copy of the draft Fifth Power Plan. I read the entire plan last night. I also have a copy of the Bush Energy Plan, as passed by the US House, the most recent version and I read all 2,000 pages of that.

Your plan is better for our region. The reason is that under your plan you would essentially move us back to the rate base we had here prior to the 2000 crisis.

Where electricity is not as much a commodity as it is a necessity. That means our rates would decline and in the period following your plan's recommendations, we could expect our rates to be back in the 4 to 6 cents per kilowatt hour, rather than in the 12 cent per kilowatt hour range that we would have to pay under the Bush scheme, where the incremental capital cost would be carried solely by the ratepayer.

Indeed the 6 to 9 cents we pay now is a cause of the 2000 crisis where the capital cost was financed entirely on the backs of rate payers here to move us into merchant power, something that since we have seen as the path that was one that we would have not chosen ourselves. Indeed Duke has since restructured and has left the merchant power business and returned to more of a traditional electric utility.

I worked with John Sawhill during the 1970's on energy projects and he was the energy czar under President Carter. We built the combined cycle cogeneration facilities at our Texaco refineries and the first true coal gasification plant in the Mohave desert, namely Cool Water, that exceeded all clean air and water regulations by huge margins. (My background is shown below).

So as an owner and a customer of the Grays Harbor PUD, I say you guys got it right and your plan should be the model going forward. It will lift all boats here and lower rates, rates will be lower under your plan than would otherwise be the case and that will help all here - from residential to industrial, including our municipalities and hospitals.

It is a good plan and will benefit all rate payers here. John Sawhill would be proud of the work you do, we lost him last year to cancer.

Good job, NWPCC

Very sincerely yours,

Edward David Perrotti
CEO and Founder (retired)
Risk Analytics, LLC
505 North B Street
Aberdeen, WA 98520

Education:

Rensselaer Polytechnic Institute
BS, Aeronautical Engineering (1969), MS, Management Science (1973)

Harvard Business School
AMP, Executive Management Program (1975)

Experience:

Philadelphia Electric Company (1969)
Corporate Finance Dept.

Responsible for the development of new capital market financings for electric and gas utilities as well as energy capital equipment. Arranged debt and equity corporate offerings and created several original lease financing structures for use in power generating plant projects.

Fleet Financial Group (1973)
Vice President, Capital Equipment Finance

Pioneered the use of leverage lease financings in the utility and transportation industries. Lease financing structures for domestic and international carriers for DC10's, L1011's, 727's and 747's. Privately placed debt and equity offerings. Created innovative aircraft lease financing structures that employed joint venture partnerships with GE, GATX and the Bank of Tokyo. Expert in modeling equipment residual values and tax oriented lease optimization techniques.

Adjunct Instructor - US Naval War College, Newport, RI (1975)

Chase Manhattan Bank (1976)
Vice President - Capital Markets Group

International capital equipment finance. Created the initial off off balance sheet corporate financing

arrangements for use in the international oil business. Developed the LTL structure as a means to facilitate the joint venture partnership financing of capital equipment sales. Developed multi-currency and cross border leverage lease financings for German capital equipment into offshore markets. Privately placed leverage lease equity and debt securities.

Texaco Inc (1980)
Director - International Project/Marine Finance

Responsible for negotiating and documenting all lease financings of VLCC marine vessels, refineries and production facilities. Financings included the Cool Water gasification plant, the LOOP offshore facility, the Highlander project, the Pembroke refinery and cogeneration investments in the US. In addition, arranged lease agreements in the US, Europe and the Pacific (Caltex) with a variety of commercial and investment banks.

Promoted to President, Texaco Marine Financial Services with responsibility for global fleet financial management.

Deutsche Bank Capital Corp. (1986)
Senior Vice President, International Leasing Group

The structuring of multi-currency cross border tax oriented lease financings for capital equipment exported to the US. Work included the development of programs for Airbus, Daimler, Bombardier and Porsche. Devised a joint venture/partnership subsidiary for use by Messerschmidt in the financing of commercial helicopter sales in the US.

CEO & Founder (1989)
Expert Health Systems, Technology Planning Associates, Risk Analytics, LLC

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The Electric Utility Business - The Opportunity Cost Associated With Purchased Power.

Dear NWPCC,

At the Harvard Business School, as well as Stanford, the MBA student is taught about portfolio management and the concept of asset and liability management, that is the best way is to match assets (the customer base or revenue stream) with how you finance that base (in the case of the PUD, the sources of purchased power). Drop by anytime and I will show you both the heuristic and deterministic models to use to see whether or not the regional PUD system is sub optimized. No charge.

But one thing missing in the energy policy debate is that the customer use profile has an embedded opportunity cost associated with it. If as a residential user, I use less, than less is indeed more. That means the PUD uses substitution for purchased power. Conservation is another source of power, because the more we conserve, the less the local PUD has to buy or make itself, thus saving as compared to the case where we just waste electricity.

Indeed if a user generates their own power with cogeneration or they use a fuel cell at their home, home office or office to partially carry the load, then the local

PUD has savings that would otherwise not be the case, had that customer just consumed and not conserved or made power themselves.

So if the conservation efforts save 10% of load, that is 10% less required to buy on the market, or make yourself. Ten percent less natural gas fuel used, less in the way of new lines and stations. Lowers the capital and take or pay operating cost to the PUD, more for the employees, a higher wage, for the IBEW. More vacation time and more IBEW employees.

Stronger unions. A rising tide lifts all boats. And then the economy creates jobs.

This means that local, state and federal agencies should be subsidized by the PUD system with lower rates, than would otherwise be the case, had they not used fuel cells and cogeneration. Indeed GH Paper and Weyco and others that employ cogeneration should receive lower rates for purchased power from the PUD, had they not generated part of their load themselves.

Why the BPA policy of raising rates to fund the federal treasury deficit is misguided and simply not working. Hurting the economy of this state and the entire Pacific Northwest. Why we need to elect US Senator Patty Murray. Return control of the US Senate to the Democrats.

The Bush energy plan does not take into account the intrinsic and imputed values, the opportunity costs. If we do nothing, as the Vice President says, the cost of not doing this is so much higher than the cost of doing this.

If rate setting uses this model, if user conservation is seen as a replacement and a substitute for generation, then we need fewer major power facilities and fewer high tension distribution lines. For conservation is the same as generation on site and fuel cell use and cogeneration are load reduction vehicles.

So less is more. More clean air and more savings to the PUD. Maybe it is time to study this and look at these rate models. The base case is maintain the status quo and the alternative - encourage use of on site generation, in the form of conservation, fuel cells and cogeneration.

What would be the optimization model. A deterministic dynamic programming model that applies slack and surplus variables and quantifies the opportunity cost that is saved due to means that lead to less purchased power by the PUD system.

And then maybe we can have our cake and eat it too. Pay the cost at these dams to save the salmon. These two are not mutually exclusive or exhaustive. If you do the math and some of it is rocket science, optimization models, we could have lower rates, less pollution, less high tension lines, fewer power plants and dams that save fish, not destroy them.

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