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

Via e-mail to comments@nwcouncil.org

Dear Mr. Walker:

On September 22, 2004, the Northwest Power and Conservation Council ("Council") released its draft Fifth Pacific Northwest Electric Power and Conservation Plan ("Draft Plan") for public comment. The Draft Plan recommends actions that regional utilities and other stakeholders should undertake to ensure an adequate supply of electric power in the region. Puget Sound Energy, Inc. ("PSE") appreciates the opportunity to provide the following comments on the Draft Plan.

In sum, PSE believes that while the Draft Plan is well done in many respects, the current electric power industry conditions existing in the region are dramatically different from those assumed in the Draft Plan. History shows that past Power Plans have influenced the direction of regional resource acquisitions. Accordingly, PSE is concerned that the Draft Plan does not reflect the reality of market and infrastructure conditions and the limited resource options available to the region's utilities today. This letter will attempt to convey in more detail our concerns prior to publication of the final version of the Power Plan. Our hope is that the Council and its staff will continue to engage with PSE and other regional utilities, at both a policy and technical level, to better align the conclusions reached in the Final Fifth Power Plan with market realities and utility resource options.

Introduction

As part of its long-term resource strategy development, PSE is required to undertake a Least Cost Planning ("LCP") process. The LCP process requires that PSE examine its gas and electric resource needs over the next twenty years – the same period as the Council's Draft Plan. PSE recently completed its LCP process and is currently implementing the recommendations from that process. Accordingly, we have current and real world experiences to share with the Council regarding the state of regional resource planning and the challenges of resource acquisition. Given our recent and on-going experience, we are concerned that the Draft Plan undermines effective resource planning by containing assumptions, analyses and conclusions that are inconsistent with the actual regional situation and the mis-alignment of many processes that are essential to the timely development, construction, and operation of new generation facilities.

PSE faces an immediate and growing power supply deficit due to both expiring power purchase contracts and rapid customer growth. The immediate need is approximately 355 average megawatts and increases to nearly 2,500 average megawatts over the next twenty years. These are real resource needs that exist despite the Council's conclusion that the region does not need any resources until 2011. In acquiring resources to satisfy this need, PSE faces many challenges in deciding whether to build a resource or enter into a long term contract to purchase the output of a third party resource. These challenges include: (i) a lack of credit that limits the ability of PSE to finance construction of new resources; (ii) issues related to debt rating agencies evaluation of long-term take or pay purchase contracts as imputed debt; (iii) transmission constraints in moving energy from desirable generation locations in eastern Washington, Oregon and Montana to the load centers in the Puget Sound area; (iv) the regulatory risk of recovering the costs of resource acquisition in rates; and (v) the lack of efficient and consistent siting and permitting processes. The Council plan must be cognizant of these challenges or the end result may be resource adequacy problems.

Major Policy Issues for the Region

The Draft Plan could be of greater use to the region if the Council, on behalf of the four Northwest Governors, made policy recommendations that could help the region move forward during these times of uncertainty in the industry. There continues to be public policy conflicts created by efforts to encourage competition in wholesale power markets while at the same time maintaining stable regulated and cost-based retail rates. The Draft Plan would serve the region better by focusing the council's analytical talents on the major issues currently facing the industry.

- How should transmission system operations, pricing and planning be coordinated across the multiple owners and users of the system?
- How should the requirements of the individual utilities be aggregated and analyzed on a regional basis when decisions are driven by local conditions, policies, risk preferences and values?
- What are appropriate energy, capacity, and transmission adequacy standards and how should such standards be implemented and maintained?
- How can the Governors help to insure that there are incentives to develop the needed gas and electric infrastructure for the region?
- What are the region's obligations to wheel power for others in WECC?
- How can certainty on incentives for renewables such as the Production Tax Credit be promoted?
- How can regional generation and transmission siting and approvals be streamlined to promote certainty?

The Role of BPA in the Region

The Council's recommendations for changing BPA's role in the region's electric power industry were very helpful in building the regional consensus that is currently shaping BPA's policies and the design of future long term contracts. However, the Draft Plan seems to have conflicting implementation recommendations for BPA. If BPA's role is reduced to providing utilities with an allocated share of the output of the federal system then the primary obligation to meet future load growth shifts from BPA to the local utilities.

The Council correctly recognizes that local utilities may request that BPA continue to meet their load growth. However, if a local utility asks BPA to acquire resources to meet their loads the full cost and risk of those resources that BPA acquires should be assigned to the requesting utility through a bilateral contract. It is only when BPA is requested to acquire new resources for a local utility that the Administrator has an obligation to serve. If there are no requests by utilities then BPA should not be acquiring resources the agency does not need.

There is a policy conflict with the recommendation that BPA acquire conservation and renewables "whether or not Bonneville has a load-resource gap." This conflict arises from the legal prohibitions against the resale of federal power and the "requirement" policies that BPA currently follows. If BPA implements conservation programs in a utility's service territory that reduce the loads to less than their allocation of federal power BPA is obligated to reduce the utility's allocation to match the load. The Council has recognized that this creates a disincentive for conservation that results in utility load reduction below the amount of federal power allocated to the utility but no solution to this problem is proposed.

Coal-fired Generating Resources

PSE supports the Council's inclusion of coal-fired generation as part of a balanced resource portfolio. Coal remains a large, proven, and cost-effective domestic supply alternative. Utilities continue to recognize the importance of coal-fired generation to the region – a summary of utility Least Cost Plans compiled by PNUCC indicates utilities are planning a significant amount of new coal generation over the next decade.

Conservation and Renewables

There is good agreement between the conservation potential PSE evaluated in its latest IRP (2003) and the potential identified by the Council. The conservation potential assessment for the region likely has higher uncertainty than a potential assessment for a more localized area (such as the individual utility level). Different end-use and sector composition of loads, growth rates, resource needs, market conditions, avoided costs, conservation infrastructure, local regulatory policy at the utility level will best dictate

program design and implementation and therefore the amounts of energy efficiency for an individual utility. The Council's estimate should be used for overall guidance about the amount of conservation to acquire regionally, but there is not sufficient information to be able to specify conservation potential for disaggregated portions of the region – by state or by utility.

The Draft Plan raised a number of questions that PSE believes should be addressed in the process of drafting the Final Power Plan (as follows):

- What uncertainties are considered for conservation? For example, what is the rate of market acceptance of newer technologies included in the retrofit potential, and assumptions about price and availability (e.g., heat pump water heaters).
- How much of the potential can be expected to be achieved through codes and standards, rather than through utility acquisition programs? Is there recognition of the uncertainty of codes and standards adoption
- Are there specific factors used in assessing risk that result in the recommendation to select higher conservation levels in the first years? The risk analysis looks at a base case of 40 aMW/yr retrofit (option 1) and an aggressive case of 120 aMW/yr in the first five years (option 3).

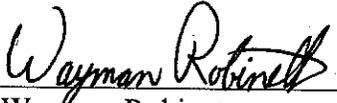
It is not clear why the Action Plan calls for increasing budgets for Market Transformation activities. NEEA's charter is currently limited to perform market transformation in the region. PSE welcomes the opportunity to participate in the strategic planning phase of the plan (through 2005) to help determine how regional infrastructure activities may best be accomplished in the region. PSE would expect discussions to address regulatory barriers to conservation, recognizing that this may not be solved at a regional level, but rather at a state level. The State utility commissions should be participants in, and in fact may want to take the lead in discussions addressing regulatory barriers to conservation compared to other supply side resources. Many public entities will choose to address these barriers at their local level.

PSE agrees that the design of BPA allocation should avoid conservation disincentives to utility customers. PSE and other IOU customers should share equitably in the region's conservation acquisition, including sharing benefits accruing to the regional system.

Conclusion

PSE thanks the Council for the opportunity to offer these comments. As indicated at the outset, a lot of good work has gone into the Draft Plan and it is an excellent document in many respects. We look forward to continued dialogue with the Council and its staff with the mutual goal of producing an even better Final Power Plan.

Sincerely,

A handwritten signature in cursive script that reads "Wayman Robinett". The signature is written in black ink and is positioned above a horizontal line.

Wayman Robinett
Director, Resource Planning