



November 19, 2004

Mark Walker
Director of Public Affairs
Northwest Power and Conservation Council
851 SW Sixth Avenue
Suite 1100
Portland, Oregon

Re: Snohomish County PUD No. 1 Comments on Draft Fifth Power Plan

Dear Mr. Walker:

Snohomish County PUD No. 1 has reviewed the Regional Council's draft Fifth Power Plan, and we have the following initial comments and questions:

Overall Questions

The Council's draft plan is based on analyses of overall estimated regional loads, broad categories of conservation measures and generic supply side resources in the context of a wide range of potential futures. It then balances assumed costs and risks to suggest some "best choice" outcomes. In doing so, it takes the viewpoint of a one utility, monolithic region and suggests a blueprint for the region. This approach, while providing an analytical baseline, raises questions.

Because the Region is Not a One Utility, Monolithic Region, How Will The Council Facilitate Implementation of Its Plan?

The Northwest region is composed of over a hundred utilities with a legal duty to serve their customers and who must make decisions as to when, where and what type of resource to provide for their customers. Recent experience has caused the region's utilities to rely less on markets for future resource supply and more on vertically integrated planning in order to meet their legal obligations to serve customers with low cost reliable electric service.

There are a few large Northwest utilities, with an immediate need for significant new resources, who have recently published Integrated Resource Plans. There are apparently

significant inconsistencies between the Council's draft and the integrated plans of those utilities. Among the differences may be different assumptions about certain PURPA and hydro resources included in the Council's inventory of existing resources (see our comments under Existing Resources below).

It is important for the Council to resolve those inconsistencies and develop a workable blueprint. The emphasis should be on getting the plan right for the next few years and working out those major inconsistencies.

In addition, there are questions regarding institutional and other barriers that make it difficult for utilities, particularly those with immediate needs, to meet their obligations to serve their consumers. These barriers should be identified by the Council so that the Council in cooperation with utilities and regulators can work to reduce or eliminate them. For example, questions exist regarding the following:

- Are there impediments to conservation that Bonneville could resolve with specific long-term contract allocations?
- Are utility and counterparty credit issues exacerbated by financial reporting requirements that disadvantage power purchase agreements when compared to ownership?
- Do certain regulatory processes create undue uncertainty with respect to cost recovery that discourage crucial conservation and resource investment?
- Do rules of separation between the transmission and merchant branches of utilities (including the Bonneville Power Administration) make it unduly difficult to consider transmission investment alternatives in conjunction with conducting least cost and risk planning?

It is not enough that the plan provide a generic blue print for the region as a whole. It must be actionable by those with the responsibility to serve customers. Too often, power plans simply sit on the shelf and gather dust. The Council should take an active role to ensure that does not happen.

Conservation – How will the region accomplish the conservation savings identified in the draft Power Plan?

Snohomish PUD supports the expanded conservation goals and believes they are attainable with the right coordination and motivation. We are committed to continuing our practice of acquiring cost effective conservation within our service area and to assisting the region with meeting future resource requirements by helping consumers use energy efficiently.

Snohomish PUD is working closely with Council staff to further develop our conservation potential based on Council data. However, it is not clear from the draft Council Plan who will be performing the various tasks to complete the conservation acquisition, who will achieve the legislative changes required, how BPA might impede or assist, and how the utility role may change from historical practice. How will the

Council clarify these roles and responsibilities and how will the Council effectively encourage utilities to accomplish their share of the regional conservation target? What will the role of the Bonneville Power Administration?

A few questions on the details of the Council's draft Plan include:

- Was increased A/C summer loading considered within the residential heat pump savings?
- The number of programs and measures required to accomplish the goals appear very aggressive. Was there any consideration in the Council analysis of limitations on contracting and utility resources in developing the achievable targets?
- Retrofits of commercial roof top units are a large market; however it has been very difficult to achieve and sustain savings in this area. Are the achievable numbers based on program research? Has the Council included new performance measures for commercial roof top units in its lost opportunity measures?

Grid West – Has the Council Considered the Cost-Benefits and Alternatives to a New Regional Transmission Organization?

The draft Council Plan appears to favor setting up a new regional transmission organization, Grid West, even though neither the Council or Grid West proponents have performed a cost-benefit study or a comparison to alternatives. This could result in out of control expenses that the region cannot afford on top of record high BPA wholesale power rates. Could existing regional organizations address the transmission issues in the Northwest? This needs to be examined.

No cost-benefit and alternatives study has been conducted by Grid West proponents. Because of this several utilities, including Snohomish, requested Henwood Energy Services to conduct a study. That study concluded that the annual cost of formation and operation of Grid West would exceed benefits by over \$120 million a year and could exceed \$300 million a year. (See www.snopud.com for the full report and for comments on the report). In Chapter 10 of the study, Henwood suggested alternatives to an expensive Grid West that need to be further studied. The Council's Draft Plan should be revised to call for a study before Grid West is created, not after. Some in the region want to vote first and study later. Instead, the region should study carefully first and vote later.

Proponents argue that only an independent organization can formulate the details of a Grid West, to be studied later. Even if true, that sounds like a task that an *existing* regional organization can address, such as the Council itself. Why create a completely new and expensive regional organization? Assuming a Grid West is created, how will the Council coordinate its legal duties with such a new and independent entity? When will the Council address those key questions? The Council must ask more questions and require answers of the Grid West proponents before the region starts down the path by voting next month on Bylaws that will lead to a costly and experimental new entity. The Council itself must ask whether there are alternative ways of solving transmission issues

in the region that do not involve the significant costs and risks associated with a new organization.

Role of the Bonneville Power Administration

Snohomish PUD commends the Council on its discussions regarding the future role for the Bonneville Power Administration. We note in particular the Council's first principle as stated in the October 28, 2003 document "The Future Role of the Bonneville Power Administration in Power Supply." This has been the central tenant in the joint customer proposal addressing this issue:

1. "The goal should be long-term contracts (20 years) both to protect the system from interventions from outside the region and to reduce uncertainty for both the customers and Bonneville."

Other important principles include:

- "Preserving this benefit for the Northwest consumers who pay for it should be a high priority for the region."
- "The time to resolve these issues is now"
- "Resolving the problems that have afflicted Bonneville and the region requires a fundamental change in how Bonneville executes its role in power supply....."
- "Fundamental to implementing changes in Bonneville's role in power supply is allocating the power from the existing federal system among eligible customers. Any allocation should be done in such a way as to minimize opportunities for gaming the process."

The Council favors long-term 20 year customer contracts with BPA that would allocate the Federal Base System-- which would protect the region from outside interference and create stability. But, in order for customers to sign such long-term take or pay contracts, there has to be effective cost control, dispute resolution and governance reform provisions in those contracts. It may be necessary for Congress to approve the long-term contracts in a way that would eliminate potential challenges and make administration of the long-term contracts more efficient and secure. There is a Congressional-Customer-BPA group that is presently addressing those options. The Council should not rule out such enabling legislation. **(We note here briefly that Bonneville is working to enact Congressional legislation to allow BPA and other Federal Power Marketing Agencies to transfer transmission assets and control over those assets to an RTO. This is legislation that would have a radical impact on the region, and yet BPA has not been concerned by such major legislation)**

Residential Exchange – What Is the Appropriate Level of Financial Benefits Under Long-Term Contracts ?

The Council has advocated a settlement of the Residential Exchange Subscription process that would be short term, and short sighted. Instead, the future level of Residential exchange benefits should be addressed in the long-term contract context with Congressional approval. This could also provide a basis for resolving the pending Ninth Circuit issues over Subscription benefits. If Bonneville, or any federal agency, can substitute its own judgment and policies for specific Congressional provisions just by calling it a settlement, that would be unwise as well as illegal. There is a better way to accomplish long-term reforms that could also solve short-term issues.

Existing Generation – To What Extent Has the Council Addressed Expiring PURPA Resource Contracts and Declining Hydro?

It is unclear whether the Council has considered the following in the forecast of existing generation:

- Declining Hydro Power – Many of the region's hydroelectric power plants are either currently undergoing relicensing or will soon. The relicensing process has already resulted in closure of some existing hydroelectric plants, significant cost, and the reduction of power generation. The Council, if it has not already, should consider the recent history of hydro relicensing and its impacts in determining the likely availability of the hydro system both in terms of the energy from those plants and their ability to provide services such as load regulation, reserves and other "ancillary" services.
- Retirement of Existing Gas Fired PURPA Resources – If the Council has included in its supply forecast existing gas-fired PURPA generators built in the 1980s and 1990s, existing generation may be overstated. In the post 2010 period contracts for significant amounts of this generation will expire. Will these resources be cost effective and continue to operate? If so, will the amount of generation capacity and energy be reduced so as to result in a more "thermally balanced" installations?

New Generation - How Will Large Scale Wind Power Be Integrated?

What is the ability of the existing hydroelectric system to accommodate the fluctuation of wind power output on an inter-hourly and intra-hourly basis? While the Council has addressed this to some extent by assuming different prices for the first 2500 MW set of commercial development (\$4/MWh) and the second set (\$8/MWh) this does not address the issue of the finite capability of the hydro system to integrate wind projects.

What will be the inter-regional transmission availability and cost for wind integration? This will be critical to determining the amount of cost-effective wind power that may be brought to the major load centers.

Natural Gas Price Forecast – Is the Council’s Forecast of Natural Gas Price Ranges Robust Enough?

The draft Council Plan in its base case forecast of natural gas prices projects a decline from current levels of \$5.44/mmbtu to \$4/mmbtu by 2010 and then projects that natural gas will continue to decline in price to \$3.80 by 2015 then grow to \$4.00 by 2025. Natural gas price is one of the key drivers in electric price forecasts and therefore a key component of the draft Council Plan.

Some nationally recognized gas price forecasters do not share this view. On October 7, 2004, Cambridge Energy Research Associates (CERA) Chairman Daniel Yergin testified to the U.S. Congress Joint Economics Committee (His testimony, “The Current Natural Gas Crisis,” is at <http://www.cera.com/news/list/1,2320,11,00.html>). Mr. Yergin says prices for the next few years will exceed \$5.00 at Henry Hub and be accompanied by high volatility because of increasing demand and decreasing productivity with no significant supply additions until 2008 or later. Puget Sound Energy intends to use CERA’s “Rearview Mirror” scenario as its base case for its LCP analysis. That forecast projects increases in natural gas prices through 2008 then a decline due to assumed new supply and then increasing prices with dips due to introduction of new supply as economics warrant but overall increase in price over time.

Basin Recovery Plan – How Will the Council Encourage Cost-Effective Salmon Recovery?

The draft Council Plan states “... NOAA Fisheries and the U.S. F&WS share the responsibility to assess the status of listed species and to develop a recovery plan, often referred to as a biological opinion.” But a recovery plan is not a biological opinion. When will there be a regional recovery plan? Who will develop it and what will it cost? What recovery goals will mean success?

The Council draft notes that “In cases where two different measures provide the same biological result, it makes sense to implement the least costly operation.” This should be among the principles that guide any recovery plan.

Ocean Interceptions--How will the Council address the impact of excessive Ocean Interceptions on Columbia Basin Salmon Recovery?

Salmon spend the majority of their life cycle in the ocean and must be allowed to return to propagate. Expensive river operations to improve Salmon conditions will be undermined or entirely neutralized by excessive or inappropriate commercial ocean interceptions.

Snohomish PUD appreciates the opportunity to comment on the Council's draft Plan. We look forward to continuing to work with the Council to help resolve the many issues facing the region and to secure a reliable, environmentally responsible and least cost energy future.

Sincerely,



(on behalf of Dennis L. Parrish)

Dennis L. Parrish
Senior Manager, Power Supply