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TACOMA PUBLIC UTILITIES

November 18, 2004

Mark Walker
Director of Public Affairs
Northwest Power & Conservation Council
851 SW 6th Avenue, Suite 1100
Portland, Oregon 97204-1348

Re: Tacoma Power Comments on NWPCC Draft 5th Power Plan

Dear Mr. Walker:

Thank you for this opportunity to comment on the NWPCC Draft 5th Power Plan. Tacoma Power appreciates the analytical rigor employed in the production of the Plan, the open dialogue facilitated by the Council in respect to the Plan, and the Council's receptiveness to stakeholder's ideas and concerns. We appreciate the opportunity to comment. We have organized our comments in two parts. The first part of our comments describes Tacoma Power's general perspective of the Plan; how we perceive it, its context and purpose. The second part includes specific comments on some of the Plan's contents. Although not organized in the same order, responses to most of the questions posed in the Plan in the section entitled "Issues for Special Attention in Comments" may be found here.

Tacoma Power's Perspective of the Plan

Tacoma Power views the Plan as a comprehensive assessment of regional needs and the best way to meet those needs as encouraged by the Pacific Northwest Electric Power Planning and Conservation Act (the Act). In that sense, the Plan offers multiple ideas, analyses and benchmarks which are useful to individual utilities in the development of their own integrated resource plans. Under the Act, BPA is expected to acquire resources consistent with the Plan, but utilities rightly have more freedom to meet their individual needs and the vision of their specific stakeholders. Not surprisingly, however, parts of the Integrated Resource Plans of many regional utilities, like Tacoma Power's, can be called consistent with the Plan. Yet as acknowledged by Council staff, when added together, the sum of these individual plans or parts will not necessarily correspond with the Plan. So what is the value of the Plan? For entities like Tacoma Power, that value is found more in understanding the basis and parts of the Plan than the Plan's conclusions and prescriptions. Tacoma Power and others should study the Plan in detail and decide which pieces of the Plan make sense for them and are applicable within the context of their individual circumstances.

- The Plan is useful in several ways: For example, it continues to be an excellent source of planning technology. It contains pertinent discussions of relevant planning issues that are of interest and concern to many in the region. It is a good source for data on costs for a wide range of planned resources (a useful supply curve), but not necessarily a good benchmark for planned resource performance. The Plan is good as a guide for the kinds of resources that might make the most sense going forward. Overall, the Plan is a useful source of help to utilities in their own planning efforts.
- The Plan is not particularly helpful in other ways: It is prescriptive and focuses solely on a regional approach (essentially treats the region as one utility). What appears to be “best” for the region within the Plan, is not necessarily “best” for each utility within the region, and the sum of the parts (of the individual utility’s plans) will not likely correspond with the Plan. This fact may mislead some if seeking consistency between it and the plans of individual utilities. While this may be a shortcoming of the Plan, this approach does offer a unique perspective, so does not necessarily detract from the value of the Plan. Finally, the Plan may be more useful to third party observers if it includes clearer statements about its applicability, and additional description of how it should be used, both by BPA and individual utilities.

To the extent that Tacoma Power agrees with the precepts of the Plan, the more likely our plans will be consistent with the Council Plan; to the extent we don’t, we’ll be different, and our comments below are offered in that light. The circumstances faced by Tacoma Power can and will be different than the general regional circumstance as depicted by the Council’s “one-utility” approach - whether it be load growth, conservation potential, current surplus/deficit condition, access to capital, or other circumstances.

Comments on Content of Plan and Question Responses

Conservation

The projected savings and associated target levels of conservation acquisition called for in the Plan appear to be quite optimistic. The Plan calls for 130 aMW of conservation acquisition in the first year, increasing over time to 150 average megawatts in the fifth year, and slightly more in each year thereafter for the duration of the 20-year planning horizon. The Plan identifies that its first year target of 130 average megawatts is approximately equivalent to the average amount of conservation acquired in the region during the Western electricity crisis of 2001 through 2002 (the most ever acquired in a one year period). However, those years represent an extreme short-term condition during which some customers were taking extraordinary measures to reduce their electricity consumption and some Northwest utilities were exerting additional conservation acquisition efforts as a means of avoiding wholesale market purchases. Other than this short period, sustained acquisition of conservation at the target levels identified in the Plan are inconsistent with historical precedent, and not likely achievable.

The Plan indicates that “several major utilities already have conservation targets consistent with this plan... but more will need to step up.” This observation and the assumptions that lead to it do not adequately consider the specific situations of individual utilities. While Tacoma Power appreciates the Council’s leadership and facilitative roles on the subject of conservation, we emphasize that individual utility potential for cost-effective conservation acquisition varies greatly between utilities. As a result, it is imperative that conservation acquisition decisions are made locally by individual utilities in conjunction with their integrated resource planning processes.

Demand Response

Tacoma Power appreciates the discussion of demand response options as this resource may become very helpful to the region in coming years. However, at this time it is extremely difficult to quantify the potential size or economic value of this resource because our experiences in the Northwest have been limited to date. Demand response options could be important tools for responding to periods of very high market prices, drought conditions or transmission constraints and the region should continue studying and developing this capability. However, it is important to note that individual utilities will have varying abilities to design and implement demand response programs and customers will vary in their willingness and ability to participate. As with most resource options, demand response programs will need to be tailored to fit circumstances as they occur.

Wind Generation

It is apparent that wind development is continuing, but as the Plan points out, the level of future wind development will depend on a number of uncertain variables. Tacoma Power appreciates the Plan’s treatment of these variables on a probabilistic basis in its portfolio analysis, but also believes that the levels of wind development in the output portfolios may be a little high, particularly in the out-years. Although we cannot offer a better prediction of future wind development, and are not suggesting that the Council’s assumptions are incorrect, we do have some concerns. For example, can the region cost-effectively integrate such large quantities of wind generation into the regional power system? How much of an impact do the relatively bullish assumptions used about future CO2 emission costs have on wind development in the chosen resource development plan? Is it safe to assume that wind development costs decrease over time (on a MWh basis) given the relative scarcity of wind development sites? We appreciate that the Council is likely struggling with these questions as much as the region’s utilities are, and particularly appreciate the Council’s facilitative role and call for gathering more experience and information about wind resources.

Uncertainty, Risk and Resource Adequacy

Tacoma Power agrees with the methods the Council employed for the treatment of uncertainty in the Plan, including the choice of variables that are treated as uncertain. We also respect the analytical rigor employed in this part of the Plan. This is not to say that we necessarily agree with each and every input assumption, but appreciate that many subjective decisions are required as part of the analysis. Although we are uncertain as to

whether the inclusion of, or modification to some elements of uncertainty, such as wind costs, CO2 costs, and IPP availability would change the conclusions of the Plan, we have an interest in understanding what their impact might be.

With regard to risk, we see the choice of any one specific “resource development plan” (choice of a specific risk / cost relationship) also a subjective decision. As an organization, we generally agree with the Plan’s approach of choosing a resource development plan that minimizes risk, but we also strongly believe that such goals need to be in balance with cost considerations. We do agree that in general, the least-risk plan should result in less price volatility in the future, but do not believe that it would have necessarily avoided the kind of high costs the region experienced in Western electricity crisis of 2000 and 2001. We believe that crisis was much less a problem of resource adequacy and much more a problem of manipulation, inadequate market rules, and lack of enforcement of rules. Further, we believe that it would be inappropriate and inefficient to assume that the basis for resource adequacy is a level of acquisition necessary to avoid a manipulated market scenario.

Global Climate Change Policy

Tacoma Power agrees that acknowledgement of the potential for the existence of future policies to reduce CO2 emissions is an appropriate component of the Plan. Given the uncertainty as to the likelihood, timing and magnitude of a potential carbon tax in the future, we appreciate the difficulty in developing this assumption. However, relative to our general outlook, CO2 costs assumed in the Plan, particularly the magnitude of the tax, may be a little high. We imagine that treatment of this assumption as a probabilistic occurrence, as appropriately done in the Plan, may address this issue to some extent. Also, we trust that adequate sensitivity analyses were performed to ensure that CO2 cost assumptions do not have a disproportionate impact on the portfolio results.

BPA Role

In general, Tacoma Power supports most of the Plan’s positions in regard to BPA. Specifically, we agree that BPA’s future role should be selling electricity from the existing Federal Columbia River Power System to eligible customers at cost. Those customers who request more power than can be provided from the existing system should pay the additional cost associated with that service. Further, in the interest of enabling customers to attain more certainty in their planning requirements in a timely manner, we emphasize the Plan’s position that BPA conclude negotiation of new post September 2011 long-term contracts by October of 2007.

One position we do not agree with however is the Plan’s position on DSI augmentation. The Plan takes the position that there “may be an opportunity to provide a limited amount of power for a limited duration” to direct service industries. Tacoma Power does not agree with this position. Given BPA’s forecast to be approximately 200 aMW in deficit by FY 2011, we feel that there simply isn’t enough power to go around. However, the DSIs should be allowed to seek service from their local utility on a basis similar to that of other (non-DSI) industrial customers.

As part of the Plan's direction to BPA on "fulfilling responsibilities for conservation and renewables," the Plan directs BPA to provide "backstop mechanisms" to ensure that the level of conservation and renewable acquisition consistent with the Plan is met, and suggests that the cost of these actions would be paid by utilities that "fail to meet their responsibilities." Tacoma Power feels strongly that BPA's role should not be expanded beyond the existing tenants of the Northwest Power Act. In addition, Tacoma Power emphasizes that the bulk of conservation is best achieved and should be pursued at the local level, and that decision-making authority on conservation acquisition should be retained by individual utilities, and not mandated by BPA, the Council or any other centralized organization.

Transmission

We appreciate the Plan's call for addressing regional transmission issues and we appreciate the Council not specifically endorsing GridWest as a business model. The cost-benefit analysis to date as to whether an RTO would benefit the region is very limited. We believe that an RTO as currently envisioned would actually cost the region more to build and operate than it would return in benefit. Further, we believe that most real issues can be resolved using existing regional transmission institutions and forums.

Independent Power Producers

Tacoma Power generally agrees with the assumption that considers the independent power producer (IPP) plants in the region as resources available to serve the regional market. However, we are concerned that this assumption may be too simplistic. Specifically, is it safe to assume that some or all of these resources will be available on a long-term basis? Assuming it is not already considered; perhaps some means of introducing uncertainty to the availability of some of the IPP resources over time may be warranted. Treatment of IPP resource availability as a key uncertain variable in the portfolio analysis might be considered. Further, is it safe to assume that the IPP resources are necessarily available to all utilities that may require resources? The Plan does acknowledge that this may not be so, but does not appear to quantitatively address this point in the portfolio analyses.

Tacoma Power appreciates the opportunity to comment on the Plan and looks forward to being a participant in future discussions on regional issues.

Sincerely,


Steven J. Klein
Superintendent