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November 12, 2002

Steve Rattien
Director, RAND Science and Technology
RAND
1200 South Hayes Street
Arlington, VA 2202-5050

Dear Mr. Rattien:

A recent RAND report, "Generating Electric Power in the Pacific Northwest: Implications of Alternative Technologies," drew a fair amount of attention in the Pacific Northwest. In light of RAND's reputation as a well-respected research institution, the report's conclusions regarding important regional energy and fish and wildlife issues, and the Council's statutory role regarding these very issues, the Council asked its staff to review the RAND study. The results of that review are enclosed. The Council also invited Mark Bernstein to discuss the analysis with the Council. We appreciate RAND making Dr. Bernstein available for that discussion.

The Council is listed among the organizations consulted by RAND. However, no use was made of the significant information contained in the Council's power plan regarding electricity demand forecasts, ranges of future fuel prices, or the availability of cost-effective efficiency and generation resources. As a result, the report does not take into account the Pacific Northwest's history of aggressively pursuing efficiency and renewable resources.

We do not dispute the results of the basic scenario, in which 20 percent of the Energy Information Administration's forecast of expected gas-fired generation is replaced with efficiency or renewables, though we do have some methodological and data issues as discussed in the staff review. The basic conclusions that can be drawn from that analysis are that cost-effective efficiency improvements can be beneficial; wind can provide a hedge against high natural gas prices; and solar is too expensive at this point in time. These findings are in agreement with the Council's own planning.

Rarely will an action taken in the context of energy or fish and wildlife protection register an impact -- either positive or negative -- on our region's \$400 billion economy. The fact that an action does not have a significant impact on the regional output or employment should not, in and of itself, justify

adopting such an action. Instead, we believe a decision to remove dams should be justified based on the potential benefits to salmon and other activities compared to the sub-regional costs of removing the dams and replacing the electricity supply, including the fact that the Bonneville Power Administration and its customers are likely to have to repay the debt on the dams even if they are removed (a consideration that was omitted from the RAND analysis).

A 2002 Corps of Engineers study regarding lower Snake River dam removal determined long term (after one year) annual regional impacts of \$272.4 million in business transactions, \$252.9 million in personal income, 2,290 jobs per year, and identified negative socio-economic impacts at sub-regional levels. The removal of the four lower Snake River dams has an economic cost that may be small relative to the entire Northwest or national economy but relatively large compared to the estimated benefits. In addition, the economic effects are likely to be concentrated, and more significant, in some of the region's local economies.

We believe, a much more useful analysis of regional and sub-regional issues would have resulted had RAND adopted a more detailed approach to assessing the regional economic effects, while also utilizing the best available regional and sub-regional information involving a broad spectrum of interests.

This last point -- public input and involvement -- is of no small moment to the Council, as our governing statute, the Northwest Power Act, requires such an approach. We are concerned that because the RAND analysis did not sufficiently involve northwest stakeholders and was not adequately vetted with knowledgeable regional entities, it lacks important northwest-specific information and perspectives and thus is not as informative as it could be.

If RAND is again commissioned to study matters regarding northwest energy and fish and wildlife, we hope you will take our constructive criticisms regarding this report into account, and we stand ready to work with RAND to assure the quality analyses that your organization surely desires and that our region deserves.

Sincerely,

Frank L. Cassidy Jr., Chair
Northwest Power Planning Council

Enclosure

