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July 11, 2006

MEMORANDUM

TO: Power Committee Members

FROM: John Fazio, Senior System Analyst

SUBJECT: Status Report on an Economic Target for Resource Adequacy

In response to comments received on the May 10th Resource Adequacy issue paper, the Council is considering the development of an "economic" standard that would complement the recently adopted "physical" standard. While the physical standard protects the region against unwanted curtailment events, the economic standard would protect against the likelihood of future electricity price spikes.

The development of an economic standard dovetails nicely with the Council's 5th Power Plan. In that plan, the Council chose a resource strategy that protects the region against undesirable physical and economic events. The economic standard is a higher standard, in that it implies the acquisition of more resources and leads to a higher energy load/resource balance in the region. Planning to an economic standard reduces the region's dependence on out-of-region electricity markets and their sometimes-volatile prices. An economic target would also indicate if too many resources or if the wrong kinds of resources were being developed.

The Resource Adequacy Forum's steering committee has discussed the development of an economic standard. Some utilities have expressed concern over this issue, stating that economic decisions should be utility based and not driven by a regional assessment. Others felt that an economic standard would be beneficial, especially if it was simply used as an early warning signal for the region.

At this time, it is not clear whether the Forum will reach consensus on a regional economic target. Even if the Forum does reach an agreement, there is no guarantee that the resulting economic target would match the one implied in the Council's power plan. Regardless of the outcome, the Council will continue to use the resource strategy in its 5th power plan and its implied economic target to assess the region's power supply on an ongoing basis.

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