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October 31, 2014

**via e-mail: [comments@nwcouncil.org](mailto:comments@nwcouncil.org)**

Chair Bill Bradbury  
Northwest Power and Conservation Council  
851 S.W. Sixth Avenue, Suite 1100  
Portland, OR 97204

Subject: 7<sup>th</sup> Power Plan Environmental Methodology

Dear Chairman Bradbury and Members of the Council,

Thank you for the opportunity to comment on the 7<sup>th</sup> Power Plan's Methodology for Determining Quantifiable Environmental Costs and Benefits (Environmental Methodology). As generation owners serving local utility customers, Public Generation Pool members understand first-hand the importance of environmental considerations and cost evaluation in the analysis of different measures and resource types.

In March of 2014, the Public Generating Pool (PGP) responded to the Council's request for comments on the Environmental Methodology used in the 6<sup>th</sup> Power Plan (attached). We believe the comments provided in March are relevant to this comment process and to the Council's decisions regarding the Environmental Methodology to be used in the 7<sup>th</sup> Power Plan.

It is unclear from the Issue Paper requesting comments on the Environmental Methodology whether or not the Council intends to follow the same Environmental Methodology framework that was used in the 6<sup>th</sup> as well as in previous power plans. We encourage the Council to use the same framework which was comprised of four components:

- 1) Cost of existing regulations;
- 2) Potential cost of new regulations;
- 3) Consideration of environmental benefits; and
- 4) Residual environmental costs.

*Regulatory Uncertainty relative to Carbon*

There is a lot of uncertainty in the timing and method(s) that could be developed to regulate carbon. At the time of the 6<sup>th</sup> Power Plan there was high certainty that there would be some form of carbon regulation in place within the 5-year time frame, but nothing was implemented in that timeframe. Although the proposed EPA 111(d) rule makes some parties more confident that regulations will be put in place, a lot of uncertainty remains about how and when such regulations will be applied. This uncertainty is compounded by the opportunity for states and regions to develop their own methods by which to achieve some level of carbon reduction.

For that reason, PGP strongly discourages the Council from attempting to model or use EPA's proposed 111(d) rules. As stated in the Council's issue paper, these rules are complex and are likely to undergo significant modification before they are finalized. Further, the Council would need to make a number of assumptions about how to model the implementation of rules that are in a state of flux.

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Given that the desired effect of the recommended rule or any carbon regulation is to reduce levels of carbon, PGP recommends that the Council use some form of scenario analysis that evaluates a range of carbon reductions. PGP would also discourage the Council from estimating some level of carbon tax or using the social cost of carbon as a proxy. Instead, PGP encourages the Council to conduct scenarios of carbon reduction relative to current carbon levels.

*Residual environmental effects/Quantifiable benefits*

PGP believes that the consideration of environmental benefits and residual environmental costs should serve a limited role in the development of system costs. Costs and benefits that have been codified into regulation or statute are predicated on public review and vetting of supporting information. Without this, the quantification of such costs and benefits may be speculative or incomplete, especially if they are not routinely valued or attributed as a direct cost by utilities. If consistency is lacking in valuation or application, applying these costs and benefits to a measure or a resource could skew the outcome of cost-effectiveness evaluation within the Council's Power Plan, and create an inconsistency with individual utility practices in the region.

PGP recognizes that it is appropriate and consistent with standard utility practice to provide a qualitative discussion of these components. In addition, under limited circumstances, it may also be appropriate to include such direct costs or benefits. Inclusion of environmental benefits or residual environmental costs should only be considered when the Council is able to quantify the direct costs based on standard utility valuation practices and a significant body of research and literature. Requiring review and vetting will serve to limit any artificial inflating or deflating of system cost calculations for a measure or resource.

*Environmental Effects of Renewable Resources*

The Environmental Methodology that has been used in previous power plans is sufficient to address the effects of renewable resources. No compelling argument has been identified for considering environmental effects for one type of resources in a manner different than other resources

On the specific question of whether the Council should "lead a region-wide effort to assess the suitability of sites for terrestrial and aquatic energy resources," PGP strongly believes that this is not only an inappropriate role for the Council, but that it is redundant to other state and regional processes. Existing regulatory agencies have the statutory responsibility to conduct extensive processes to assess the impact of site specific projects on fish and wildlife, and other resources. Each of these processes already include public participation and comment. Not only is Council involvement in this area not necessary, but it is inappropriate.

*Conclusion*

The Environmental Methodology is specifically identified in the Power Act and is an important element of the Power Plan. PGP encourages the Council, both throughout the development process and in the final power plan, to clearly articulate the effect of environmental cost and benefit assumptions in the scenario analysis. PGP specifically requests the Council identify how these assumptions impact the future resource mix.

Thank you again for the opportunity to comment. PGP and its member utilities look forward to continuing to collaborate with the Council to achieve the objective of developing a Regional Conservation and Electric Power Plan that is meaningful and useful to northwest utilities.

Sincerely,



Therese Hampton  
Executive Director, Public Generating Pool

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March 5, 2014

**via e-mail: [sixthplanremand@nwcouncil.org](mailto:sixthplanremand@nwcouncil.org)**

Chair Bill Bradbury  
Northwest Power and Conservation Council  
851 S.W. Sixth Avenue, Suite 1100  
Portland, OR 97204

Subject: 6<sup>th</sup> Power Plan Environmental Methodology

Dear Chairman Bradbury and Members of the Council,

Thank you for the opportunity to comment on the 6<sup>th</sup> Power Plan's Methodology for Determining Quantifiable Environmental Costs and Benefits (Environmental Methodology) set forth in Appendix P of the 6<sup>th</sup> Power Plan. The Public Generating Pool (PGP) is composed of eleven consumer-owned electric utilities that serve approximately one million customers throughout Oregon and Washington. PGP member utilities own approximately 7,000 MW of generating resources and purchase 35 percent of the requirements power sold by the Bonneville Power Administration (BPA). As generation owners and load serving entities, PGP members understand first-hand the importance of environmental considerations and cost evaluation in the analysis of different measures and resource types.

The Northwest Power and Conservation Council (Council) is charged under the Pacific Northwest Electric Power Planning and Conservation Act (Power Act) with preparing and adopting a Regional Conservation and Electric Power Plan (Power Plan). The Power Plan is designed to provide guidance to the BPA Administrator regarding resource acquisitions. In addition, it provides a framework for regional analysis of resource needs and options. Given the Power Plan's objective to inform BPA and regional resource options, it is important that the Power Plan and all associated methodologies and assumptions:

- Accurately reflect the direct costs of a measure or resource;
- Recognize and be compatible with standard utility practice; and
- Maintain reasonable consistency over time.

To the extent that methodologies or assumptions are not consistent with the principles defined above, the Council's Power Plan could become biased or flawed resulting in a Power Plan that is misleading or not representative of the region's power system. PGP finds that the Environmental Methodology used in the 6<sup>th</sup> Power Plan generally meets these principles, however, there are some areas for additional focus.

In order to provide comprehensive comment on the Environmental Methodology used in the 6<sup>th</sup> Power Plan, PGP elaborates on the principles we deem to be essential to the Council's methodologies and assumptions. PGP then evaluates the 6<sup>th</sup> Power Plan Environmental Methodology relative to those principles.

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## PRINCIPLES ASSOCIATED WITH COUNCIL'S POWER PLAN

### Direct Costs

The Council's Environmental Methodology, and any other methods or assumptions, needs to rely on direct costs attributable to a measure or a resource. The Northwest Power Act specifies that the Power Plan shall give priority to resources determined to be cost-effective<sup>1</sup>. The Power Act provides the following supporting definitions:

- "Cost-effective when applied to any measure or resource...means that that such measure or resource must be forecast....to meet or reduce the electric power demand....at an estimated incremental *system cost* no greater than that of the least-cost similarly reliable and available alternative resource"<sup>2</sup>
- "System Cost means an estimate of all *direct costs* of a measure over its effective life, including, if applicable, the cost of distribution to the consumer and, among other factors, waste disposal costs, end-of-cycle costs, and fuel costs (including project increases), and such quantifiable environmental costs....are *directly* attributable to such measure or resource."<sup>3</sup>

The Power Act intended that the Council develop and employ a methodology which quantifies the direct costs of a measure or resource in order to determine the most cost-effective measure or resource. Given this language we can infer that the Power Act did not authorize the Council to develop or employ a methodology that relies on unquantifiable or indirect costs. Furthermore, inclusion of such costs would likely bias or flaw the results of the Power Plan and it would not accurately reflect the most cost-effective measure or resource. As a result, it would be inconsistent with the Power Act to include costs that are based on speculation or which are indirect or secondary to the measure or resource and thus should not be included in the Council's methodology or applied in the Power Plan.

### Standard Utility Practice

The Power Act indicates that the Power Plan shall be compatible with the existing regional power system.<sup>4</sup> The regional power system includes not only the Federal Columbia River Power System but also resources owned and managed by five large investor owned utilities and numerous public utilities. These regional utilities are governed by state public utility commissions or publicly elected boards who provide final direction and authorization on the methodologies and assumptions used in their resource acquisition decisions. For the Power Plan to be relevant in the region and compatible with the existing regional power system, the methodologies and assumptions used in developing the Power Plan need to be reasonably consistent with the standard utility practice employed by the region's utilities and authorized by their utility commissions and electric boards.

Integrated resource planning is conducted at large utilities across the country. As a result, there are fairly standardized methods for the evaluation and incorporation of environmental costs and benefits, and extensive work exists within the industry on how to evaluate and manage uncertainty in this area. As a Regional Planning entity it is not useful for the Council to develop or employ methodologies that are inconsistent with those that would be developed by the individual utilities within its region. For these reasons it is important that the Council's methods be consistent with standard utility planning methods and do not rely on methods that are untested or speculative in nature.

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<sup>1</sup> Pacific Northwest Electric Power Planning and Conservation Act, 16 U.S.C. § 839b(e)(1).

<sup>2</sup> 16 U.S.C. §839a(4)(A) (emphasis added)

<sup>3</sup> 16 U.S.C. §839a(4)(B) (emphasis added)

<sup>4</sup> 16 U.S.C. §839b(e)(2), §839(5)(b), and §839b(g)(2)(c)

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### Consistency

The Council's methodology and application of its methodology should seek to achieve a measured consistency over time. Decisions to acquire and secure new measures or resources take time. If analyzed accurately, these measures and resources should provide value to the regional power system for decades. Because of the long-term nature of both the acquisition process and the measure or resource life, it is important that methods of analysis do not fluctuate significantly from one Power Plan to the next. Doing so could result in a Power Plan that is unreliable and potentially viewed as irrelevant to Northwest utilities and regional decision makers.

The Council has maintained essentially the same environmental methodology since its 1<sup>st</sup> Power Plan. PGP finds this to be a testament to the relative consistency with regional practices and the guidance provided in the Power Act. We understand and respect that the Council has a responsibility to identify and review the Environmental Methodology that is used in each Power Plan. However, given the relative consistency of the current Environmental Methodology with regional resource planning methods and statutory directives, we would not expect to see major modifications to the methodology used by the Council.

## **REVIEW OF THE 6<sup>TH</sup> POWER PLAN ENVIRONMENTAL METHODOLOGY**

The Environmental Methodology established in Attachment P and the application of the methodology within the 6<sup>th</sup> Power Plan should be consistent with the principles articulated above. The Environmental Methodology is comprised of four components:

- 1) Cost of existing regulations;
- 2) Potential cost of new regulations;
- 3) Consideration of environmental benefits; and
- 4) Residual environmental costs.

### Cost of Existing Regulations

PGP believes that component "1" is consistent with the principles established above. Component "1" calls for the inclusion of costs associated with existing regulations. This component includes only those environmental costs that have been addressed through regulation and translated into a direct regulatory cost. In addition, it is standard practice for utilities to incorporate direct regulatory costs within their planning process. Consistent with this, the Council has included and applied these costs since the 1<sup>st</sup> Power Plan. Therefore, the Council appropriately included within its methodology principles of direct costs, standard utility practice and consistency. As a result PGP supports inclusion of direct costs of existing regulations as presented in the Council's Environmental Methodology.

### Potential Cost of New Regulations

Component "2" seeks to incorporate potential costs attributable to new regulations. Many utilities apply a probabilistic analysis and an estimated range of direct costs that could occur from regulation(s) that have a high likelihood of being adopted in the near-term. Important considerations for this type of analysis are the likelihood of a new regulation and the basis for estimating a range of regulatory costs assumed. When these attributes are achievable it may be consistent with standard utility practice to evaluate and consider the risks presented by potential cost of future regulations.

In the 6<sup>th</sup> Power Plan, the Council's Environmental Methodology did employ probabilistic analysis on the potential cost of new regulations; more specifically, the 6<sup>th</sup> Power Plan addressed the probability of new carbon regulations being imposed. While the Council's probabilistic analysis may have been appropriate for the 6<sup>th</sup> Power Plan, not all PGP members agreed with the assumptions regarding the likelihood of carbon legislation or the level of such costs.

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When applied appropriately, the incorporation of potential costs associated with pending measures or regulations is consistent with the principles set forth above. In order to avoid biasing the outcome of a cost-effectiveness evaluation, the Council's Environmental Methodology should be careful to limit the inclusion of potential future regulations to only those that have a strong likelihood of adoption. In addition, language should be added to the Environmental Methodology to insure that overly speculative costs do not lead to biasing the results of the Power Plan. As a result, PGP recommends that the Council include language to this affect in its Appendix P.

*Consideration of Environmental Benefits and Residual Environmental Costs*

PGP believes that components "3" and "4", the consideration of environmental benefits and residual environmental costs, should serve a limited role in the development of system costs. Costs and benefits that have been codified into regulation or statute are predicated on public review and vetting of supporting information. Without this, the quantification of such costs and benefits may be speculative or incomplete, especially if they are not routinely valued or attributed as a direct cost by utilities. If consistency is lacking in valuation or application, applying these costs and benefits to a measure or a resource could skew the outcome of cost-effectiveness evaluation within the Council's Power Plan, and create an inconsistency with regional practice.

PGP recognizes that it is appropriate and consistent with standard utility practice to provide a qualitative discussion of these components. In addition, under limited circumstances, it may also be appropriate to include such direct costs or benefits. Inclusion of environmental benefits or residual environmental costs should only be considered when the Council is able to quantify the direct costs based on standard utility valuation practices and a significant body of research and literature. Requiring review and vetting will serve to limit any artificial inflating or deflating of system cost calculations for a measure or resource.

**CONCLUSION**

The Environmental Methodology found in Attachment P of the 6<sup>th</sup> Power Plan generally adheres to the principles PGP deems essential in achieving the objectives of the Power Plan. However, the Power Plan incorporated assumptions that we believe are inconsistent with standard utility practice and has the potential to include some costs that are not a direct cost of the resource or measure. The Environmental Methodology employed by the Power Plan should limit, if not, exclude these types of inconsistencies as they do not adhere to the language of the Power Act, and if misapplied are inconsistent with standard utility practice and lack consistency with historical methodologies of the Power Plan.

PGP members believe that the Environmental Methodology used for the 6<sup>th</sup> Power Plan does not need to be retroactively modified but urges that the principles expressed in this letter be employed in the development of future Power Plans.

Thank you again for the opportunity to comment. PGP and its member utilities look forward to continuing to collaborate with the Council to achieve the objective of developing a Regional Conservation and Electric Power Plan that is meaningful and useful to northwest utilities.

Sincerely,



Therese Hampton  
Executive Director, Public Generating Pool

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