



October 24, 2014

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

Subject: High Level Indicators and Environmental Methodology Issue Papers

Dear Chairman Bradbury:

On behalf of the PNUCC Board of Directors and our members, I would like to thank you for the opportunity to share our thoughts on both the notion of high level indicators for the power system and the issues raised regarding your environmental methodology for the Seventh Plan. The work that goes into developing the Plan is important to the electric utility industry. PNUCC members and staff are engaged in each of your advisory committees and we anticipate being fully involved as the Plan takes shape.

We are pleased that the Council is utilizing issue papers as a means to draw the region into discussions on the meatiest topics for the Seventh Plan. Issue papers have been used for past plans, and they proved helpful as a means to encourage involvement and obtain valuable perspectives. I would expect that the exchange of ideas using this vehicle will lead you to a draft plan that holds few surprises for the region's stakeholders, and that is a good outcome.

Context - A Plan that Adds Value

To provide some context for our views on the two issue papers, I would like to share with you and other Council members, our thoughts on three aspects of the Seventh Plan that are of highest value to PNUCC members. First, the Seventh Plan can be an effective medium for communicating the state of the Northwest power system and the challenges we are facing in the Northwest, and we will be working to ensure that the Council and electric power industry share a similar perspective. The Council is in the unique position to convey to decision makers and the general public details of power industry issues, including recaps of our successes and challenges. Telling the power industry story is especially valuable now, as there are many significant changes occurring both nationally as well as here in the Northwest.

We are also counting on the Council's analytics to provide insights on the effects of several policy propositions on the regional power system. Past plans have included analyses of a variety of scenarios that provide great insight into the ramifications of a range of "what ifs."

Lastly, the Council's Power Plan is used as a source of information, such as fuel price forecasts and generic generating resource characteristics data. This information is useful to individual utilities as they embark on their own analysis to inform decisions for meeting their customers' changing demand for electricity.

What follows are some reactions and specific recommendations for each of the two issue papers.

High Level Indicators of Progress on Power Plan Goals

The concept of high level indicators to examine progress toward the Power Plan goals is an interesting idea. And as Tom Karier was quoted in *Clearing Up*¹ last week, the high-level indicators have "more to do with the long-term operation and work of the Council and to improve accountability and clarify the mission." We agree that accountability and a clarified mission are of value. However, as we contemplate how the suggested indicators are defined or used, the concept has raised many questions and concerns. The doubts raised markedly outweigh the incremental value of fully developing the concept. Consequently, PNUCC recommends not pursuing development of high level indicators for the Seventh Power Plan.

The time and effort to devise any meaningful high-level indicators is not warranted, especially given that many of the information elements you identified are currently being reported through other mechanisms.

A much higher priority for your limited resources is to first, focus on improving the analytics around regional capacity planning, completing your scenario analyses, and providing an accurate picture of the challenges for the Northwest power industry and how they are being addressed. As a lower priority and as time permits, clarify the mission of the Council's Power Plan in today's world where load growth has slowed, utilities are mostly adding resources to meet peaking needs or renewable portfolio standard requirements, and where BPA has implemented a tiered rates structure.

Better Ways to Tell Region's Power Story

The Council has several well-established practices and reports that effectively recount the successes and challenges of the Northwest power system that we find useful. The Power Plan's mid-term assessments and your annual reports to Congress capture much of your work and the power industry picture. These regular publications articulate the most recent estimates of accumulated energy efficiency savings, review and estimates of regional loads, updated fuel price forecasts, analysis of the risk of a power shortage and review of progress towards state resource portfolio standards. The proposed indicators at best provide another variation on the status of several aspects of the power system.

¹ *Clearing Up* #1668, October 17, 2014, page 9.

No Clear Purpose

The purpose of developing high level indicators for the power system is unclear. And it begs the question of why they are being proposed. We support the notion of more accountability and the need for a clarified mission. This comports with the need for a more focused regional discussion about the role of the Council and their Power Plan given today's circumstances. PNUCC would recommend this topic be brought to a broader group for consideration at a later date.

No Obvious Cause and Effect

While we support more accountability and a better defined mission, it is difficult to see any clear cause-and-effect relationship between the Power Plan and some of the statistics that you propose using as high level indicators.

There are many factors that play into utilities' decisions – changes in customers' needs, state renewable portfolio standards, PURPA projects coming on line to name a few. The ability to link utilities' actions, such as wind generation and rooftop solar development, to any action item in the Power Plan is not practical. There are just too many factors in play to ably correlate elements of a power plan to any new resource development for meeting power customers' needs while adhering to local, state and federal regulations.

Environmental Methodology

The Act requires that a methodology for determining quantifiable environmental costs and benefits be an element of the Plan, which has been your practice in past plans.

PNUCC encourages you to continue with the Environmental Methodology reflected in the Sixth Power Plan and described in the Sixth Plan, Appendix P. It includes the major conceptual elements for determining quantifiable environmental costs and benefit: cost of existing regulation, potential cost of new regulations, consideration of environmental benefits and residual environmental costs. It will effectively meet your needs and allows the staff to spend their time and energy on fully vetting the scenarios being studied.

Address Environmental Effects – Stick with 6th Plan Methodology

In response to your questions related to environmental effects (both costs and benefits) of new, existing and renewable resources we recommend relying on the methodology included in the Sixth Power Plan.

We would expect, as was done in the Sixth Plan, the environmental methodology would include the cost of compliance with existing regulations in the analyses. This would include both state and national requirements (e.g. state renewable portfolio standards) as well as the compliance costs for all new resources.

To address environmental effects of resources not yet subject to regulatory controls we recommend you continue the practice of exploring the implications of potential new regulation using

scenario analyses. To assess the effects and examine the risk of future regulatory costs, assume a range of potential policy forms, for example regarding carbon emissions, consider a range of carbon reduction strategies.

In the case of EPA's proposed rules on reducing carbon, the Council's assessment of the costs and other effects should consider various levels of carbon reduction. It would not make sense for you to attempt to incorporate EPA's proposed rule into your studies. It is in the early stages of development as a draft proposal and the implementation will be defined by each state. There are too many uncertainties regarding states' plans to implement the EPA rule even assuming it were adopted as proposed.

The Council can add real value in its scenario analysis for the Seventh Power Plan. Looking at several policy propositions, such as Governor Inslee's proposals for reducing and eliminating carbon emissions will be very helpful. We expect your assessment to reflect the range of emissions from the operation of the existing power system and any new generation envisioned. Your scenarios will need to identify the full range of consequences while maintaining the same level of adequacy, including peak capacity and system flexibility, as comparisons are made. There will be great interest in any changes in the region's carbon footprint over the next 20 years for each scenario you study.

As you begin to report out on your scenario analyses we recommend you articulate the effect of your environmental costs/benefits assumptions on your scenario results. We would like to know what assumptions are the biggest drivers for changes in your results. It will be useful to know what environmental cost/benefit assumptions impact the future resource mix the most.

Residual Environmental Effects – Narratives Helpful

Recognizing the potential of residual environmental effects for different resources is helpful in telling the full story of the Northwest power system. We suggest including narrative descriptions of potential residual effects beyond regulatory compliance requirements for various generating resource options. These narratives would be adequate to address residual environmental effects and valuable in presenting useful information to decision makers.

We are skeptical about the value of crafting a new methodology for quantifying potential residual effects for the Seventh Plan. We are concerned about the ability to reliably quantify these costs and more importantly, the ability to ensure comparability across the various residual effects. The real value the Council can provide is to articulate the potential residual effects associated with different resource types. This will help increase awareness as decision makers consider actions impacting operations and planning to provide, adequate, efficient, economic, reliable power to Northwest consumers.

Siting Oversight Already Addressed

You have raised the question about the Council tackling an assessment of the suitability of sites for new energy projects and transmission. The Council should not lead a region-wide effort to assess suitability of sites for new generation and/or transmission.

There are a multitude of regulatory and oversight processes already in existence at the federal, state and local levels to assess sites for resource development. This is a far reaching task that seems to go well beyond the Council's current statutory mandates.

One last general observation for your consideration is that the tone of the questions you've brought forth in the issue paper on Environmental Methodology creates the perception that the Council is seeking to expand your role as an environmental specialist. This is not the Council's role, nor do you have the vast resources and expertise needed to be successful in this complex area.

Once again, we do appreciate the opportunity to weigh in on these significant topic areas and look forward to continuing to engage with the Council and staff as you develop a new plan that communicates the values, successes and challenges of the Northwest power system.

Please contact me or Dick Adams (503)294-1268 to arrange a time to discuss in detail any of the points we have touched on here.

Sincerely,

A handwritten signature in blue ink, appearing to be 'JP', with a long horizontal flourish extending to the right.

John Prescott, PNGC Power
PNUCC Chairman

Cc: PNUCC Board of Directors
Council Members
Steve Crow