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Dear Mark,

Attached for your consideration are the comments from the staff of Northwest Requirements Utilities (NRU) regarding the draft Council Document 2011 – 01, “The Effects of an Increasing Surplus of Energy Generating Capability in the Pacific Northwest.” I would appreciate it if you would circulate these comments to the members of the Northwest Power and Conservation Council (Council) and staff and any other interested parties. NRU is a trade association of 50 Load Following customers of BPA that account for about 25% of the Agency’s public preference load. In addition to these comments, individual members of NRU may be sending in their own comments regarding this important topic. Surplus energy generation in the Northwest has a significant impact on our members’ power supply costs, and the significance of that impact will escalate rapidly as new variable energy resources are constructed that are surplus to the region’s need. We note that some of our members have developed wind generation in BPA’s Balancing Authority, and others have or are considering small-scale thermal renewable resources that would have Renewable Energy Certificates (RECs) and Production Tax Credits (PTCs).

We would like to thank the Council and staff for addressing this important topic and commend you for the effort that went into developing the draft paper. In general, NRU believes it is a fair and balanced identification of key issues and potential alternative courses of action at a very high policy level, without locking into specific sets of recommendations. We appreciate the work you have done in coordination with other entities, both at a policy and technical level. While that is the case, we must all recognize that there is a great deal of analytical work that needs to be done from a variety of perspectives, and then peer reviewed, before NRU or others could embrace some of the broad descriptions or chose between alternative courses of action.

Please let us know if and when the draft document will be reviewed in public meetings, as we would like to attend or participate in the Council’s deliberations. In the following comments we raise our issues or concerns with various facets of the paper, and subjects that are not, but perhaps should be, addressed. These are intended to help improve the paper, but more importantly to identify and clarify key issues that may emerge in the ensuing regional deliberations. However, the draft paper itself is a good framework for regional discussion.

**The paper is about BPA.** The introduction to the paper references the Northwest power system. However, the document addresses primarily the Bonneville Power Administration (BPA), particularly wind development within the BPA balancing authority. It may be helpful to clarify if the focus is indeed BPA, particularly since most of the possible strategies tie to BPA operations.

**Gas Caps Need More Attention.** The paper has references to the gas caps associated with the 1977 Clean Water Act. However, there is no reference to the FCRPS Biological Opinion and the acute sensitivities surrounding issues of spill that are part of the Bi-Op litigation. Also, the documented negative consequences of spill in excess of gas caps (while not the focus of the paper) seem to have been passed over. In the context of the FCRPS Bi-Op, as part of the rationale for BPA considering Environmental Redispatch, it would be useful to reference the hundreds of millions of dollars that BPA customers are already asked to shoulder for fish and wildlife obligations, particularly since this is not brought up in the section on “Equity Issues.” We vigorously oppose a state exemption in water quality standards mentioned near the end of the paper for excess energy events. We support the Bi-Op and its implementation measures, and have no interest in seeing the dissolved gas standards adjusted. While the paper did not recommend such adjustments, the issue is raised and NRU wants to emphasize its opposition to that strategy.

**Wind is not a Must Run Resource.** For purposes of using the Aurora model, wind was represented as a “must run resource.” While we understand the logic of doing this so that Aurora produces the types of information you are seeking, the document should clearly state that wind is not a must run resource and that for modeling purposes only wind is assumed to run without responding to system conditions. It would be helpful to discuss with BPA and others whether the level of detail produced for this study is sufficient for purposes of really understanding how these low capacity resources are impacting the regional surplus.

**The Three Case Scenario is Very Helpful.** The report presents “Frozen RPS, Northwest RPS and Northwest RPS plus 3,000 REC” scenarios, with peak penetration of wind capacity as a percentage of Northwest peak hourly load at 20%, 29% and 38% respectively. This should be very useful information to policy makers, and will help inform the views of NRU’s members. We see a distinction between power supply being developed to serve the region’s anticipated needs, versus developing low capacity factor wind resources for purposes of exporting the RECs to California and dumping the “brown” energy into the market (having the consequence of driving down market prices because energy exceeds needs). Also, it is important to note that the regional “need” is not due to needing energy from new power supply, but instead to meet RPS standards of Northwest states (and California). In fact, in many cases, utilities under RPS requirements are actually long on resources due to developing resources purely for their environmental characteristics. We are also curious as to how actions to meet the current RPS have affected market prices. An examination of that case would also be helpful.

**Renewable Portfolio Standards Should Take Energy Efficiency into Account.** The Northwest RPS scenario shows wind capacity increasing by close to 3,000 MW to meet RPS standards. According to the paper, RPS requirements, rather than the need for power supply, will drive a regional surplus through the mid 2020s. We request that the Council emphasize how these RPS percentage targets should take into account the energy efficiency measures a utility achieves and a utilities actual need for new generating resources. (This is mentioned briefly in the section on

“Expanding the scope of RPS Qualifying Resources.”) The issue here is whether it is prudent for the region to build low capacity factor resources we do not need from a power supply perspective, to achieve an RPS mandated mix of renewable resources that can otherwise be fulfilled by energy efficiency. The substitution of energy efficiency for unneeded and higher cost RPS power supply is a realistic option, particularly when the addition of these new low capacity factor resources imposes other costs on the region. RPS policies should acknowledge that cost effective energy efficiency is the cheapest, safest, and cleanest way to meet our energy needs.

**Renewable Portfolio Standards Should Encourage Higher Capacity Factor Renewable Resources.** In addition to energy efficiency, an increased emphasis in RPS policy that would encourage the development of higher capacity factor renewable resources, such as biomass, geothermal, and low-impact hydropower, will benefit the region. These higher capacity resources better match load needs. One possible way to accomplish this would be to increase the RPS compliance value of such high capacity renewable resources. This paper should speak more strongly about the benefit of high capacity renewable resources and encourage modifications to RPS requirements to recognize such benefits.

**Paper Should Discuss Role of Capacity in Power Supply.** Capacity is an integral part of power supply and system stability, but the draft paper fails to adequately discuss capacity. Wind generation produces energy but contributes very little to capacity needs. The paper needs to include discussion of capacity, its importance and how various types of resources provide capacity (or not) and specifically what happens when a large resource (such as wind) does not contribute substantially to the capacity needs of the region.

**Additional Quantitative Analysis and Explanation is Needed.** The draft paper contains a presumption that wind developers will not be made “economically whole” in the event they lose RECs or PTCs (if any) as a result of generation curtailment and substitution of “zero priced” federal power when environmental redispatch is triggered. It would be helpful if the paper included some quantitative information regarding the range of financial impacts, either using 2010 data or projections for 2011 and beyond. That is, what is the percentage financial value of foregone RECs and PTCs compared to the total annual revenue stream and operating expenses for a wind resource? Is this risk materially different than the financial risk the developer already faces on a day to day basis when there is or is not wind generation?

**BPA’s Customers Need to be Highlighted in Paper.** The draft paper contains a description of many options for physical improvements to the FCRPS, with the presumption that such improvements would ameliorate BPA’s need for Environmental Redispatch. The paper is silent regarding who is responsible for paying for such improvements. Given the national deficit discussion in D.C., the likelihood of new tax dollars flowing to the Northwest for generation related improvements is fairly remote at this time. BPA’s Load Following customers have just signed new long term contracts with the Agency. The expectation is that through Tiered Rates, existing generation resources of the FCRPS will remain relatively low cost compared to new resources. Utilities can decide to place load growth on BPA at a separately priced Tier 2 rate or provide for their own load growth. We do not expect that costs for new generating projects will be added to the Tier 1 resource base unless it can be demonstrated, and customers agree, that there is a commensurate value accruing to the Tier 1 customers over time. The range of possible ideas in the

paper need to be aligned with what the customers who benefit from these investments are willing to support in the event customers eventually pay for the improvement.

**Large Scale Storage and New Transmission Projects May Not Pencil Out.** Given the low capacity factor of most wind resources, and their seasonal variation, it is hard to see how large power or transmission projects that are primarily used to shape or move wind resources make economic sense. Storage can be used for shaping loads between heavy load hours and light load hours, but may not alleviate oversupply of energy for a prolonged duration. We agree with the paper that, as recognized by Columbia Grid and NTTG, construction of long distance transmission lines to tap remote wind resources is too expensive. We agree that solutions may involve a combination of strategies and uses of facilities. Each proposal needs to be analyzed for its economic and operational benefits, including the very important question of who pays for and enjoys the benefits of the improvement.

**BPA's Non-Firm Revenue Sales are Declining.** We appreciate that the paper identifies that with increases in wind resources in the region, "the value of hydropower will be disproportionately reduced." BPA's hydro based non-firm revenue sales have had a material impact on mitigating the overall cost of Priority Firm Service. The BPA Priority Firm rate would be about 25% higher if the non-firm revenue was not available to offset costs. To the extent regional surpluses of non-firm power grow, and prices fall commensurately, BPA non-firm revenues decline, putting upward pressure on the Priority Firm rate. The Council draft paper notes that the overall impacts on market prices from over supply is not onerous on average for the region, but that it is most acute for hydro resources (that are largely peaking concurrent with Columbia Gorge wind resources). Because BPA Tier 1 is hydro based, public power customers have the most to risk and the declining revenue trend is of great concern. NRU members have an interest in not exacerbating the price decline in Northwest markets due to the infusion of additional energy that is not dedicated to serving load.

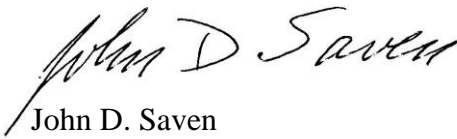
**Hydro Should Qualify for RECs and PTCs.** We agree wholeheartedly that hydro should be able to qualify as a resource for RECs or PTCs when wind or other qualifying renewable resources (such as solar or thermal) are subject to environmental redispatch and are replaced by hydro. We encourage the Council to press other regional stakeholders and BPA to advance this as part of the regional and national political agenda beginning this year. In addition, efficiency improvements made at all existing hydropower facilities, capacity upgrades to existing hydro and existing impoundments currently without generation should count toward RPS requirements (capacity upgrades like this would need to meet all appropriate state and federal fish requirements).

**Assigning Negative Pricing to Wind Integration Charges May Not Be an Equitable Solution.** In an effort to be comprehensive, the paper raises the potential of the cost of negative pricing being recovered through a wind integration charge. Socializing these costs within the wind community itself could be difficult to implement in an equitable manner. It also raises the risk of the wind integration charges being set artificially lower than they would actually need to be to recover full costs, including payment of negative pricing. The risk is that these costs may then be allocated to the Tier 1 rate as the recovery mechanism, an approach that we oppose because it violates the basic cost-causation principle upon which rates are formulated.

**NRU's Response to the BPA Environmental ReDispatch ROD.** In separate documents and processes NRU has submitted comments to BPA regarding the draft ROD concerning Environmental ReDispatch. We stand by those comments and do not repeat them in detail here. Since the Council staff raises the issue of "equity" we are compelled to point out all of the measures that BPA employs to avoid the need for environmental redispatch and importance of resolving the negative pricing issue. These measures, such as offering substitute power at "0 price" have a significant impact on NRU members as noted above. However, for this document, we have tried to focus our attention on the broader topic of regional surplus energy generation.

**Concluding Comments** This draft paper regarding the effects of increasing the surplus of energy generating capability in the Pacific Northwest should help advance public discussion of this very important topic. We hope the points raised above will be useful to the authors and to the Council as these issues are discussed and a final document is developed. Beyond doing analysis, we look to the Council as a well positioned entity to help the region grapple with these complex but important matters and help shape resource policies that make both environmental and economic sense. The staff of NRU looks forward to working with the Council, BPA, public power and other interested stakeholder groups in the review of these important issues. If you have any questions regarding these comments please contact me at (503) 233-5823.

Best Regards,



John D. Saven  
Chief Executive Officer

CC: Members of NRU  
Ken Dragoon, Northwest Power & Conservation Council  
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