



**NORTHWEST POWER AND CONSERVATION  
 COUNCIL  
 November 18-19, 2008**

Power topics dominated the Council's meeting in Coeur d'Alene. Jack Speer made a pitch for BPA service to Alcoa, while Scott Corwin argued against it. Mark Gendron previewed a "new era" to start in December, and Ken Canon whet the Council's appetite for more energy-efficiency ideas. As part of the prep for the new Power Plan, a Pacific Northwest National Laboratory scientist rolled out the latest findings about loads and electric vehicles. Next Meeting: December 9-11 in Portland, Oregon.

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**THE AGENDA**



**Champagne Corks to Pop December 1 at BPA**

We are at an important crossroads, and there should be a huge celebration coming up on December 1, Mark Gendron of BPA told the

Council. That's the deadline for our customers to execute new 20-year power sales contracts resulting from BPA's Regional Dialogue, he noted. We look forward to having 140 executed contracts – it's an incredible achievement we've worked together on for the last 10 years, Gendron said.

Since the Comprehensive Review of the Northwest Energy System in 1996, BPA has attempted to define its long-term power role, and we are now on the cusp

of significant change, he stated. We started the Regional Dialogue in 2005, and since then, we've engaged in an incredible amount of regional collaboration, Gendron said. The goals of the Regional Dialogue were to preserve the value of the Federal Base System and define the obligations of BPA and its customers to serve growing loads over time, he explained.

This year, we reached some significant milestones, Gendron said. We offered new 20-year contracts in August, and our customers are now considering them, he noted, adding that 41 preference customers have already signed.

We also finalized a tiered rates methodology, Gendron reported. The methodology is a brand-new approach with a new rate design, he said. Our load shaping policy is new, and so is the way we will charge our customers for demand, Gendron stated. Our new rate design will encourage our customers to reduce consumption during peak periods, he said. We also took great care to avoid large costs shifts among customers, Gendron added.

Going forward, there's a possibility we will need to amend the contracts or the tiered rates methodology to get the two to "synch up," he told the Council. We will also spend time with our preference customers gathering information so we can develop Tier 2 products for them, Gendron stated. A key change as a result of the Regional Dialogue involves how customers will choose to serve their load growth, he noted.

We plan to work in concert with the Council to develop a new Resource Program for BPA, he said. Gendron

pointed out that BPA has adjusted its resource program schedule to fit with the schedule for the Sixth Power Plan.

#### Q 'n A

Tom Karier congratulated BPA "for bringing this all to fruition." Having these 20-year contracts to protect our low-cost power is a great thing for the region, he said. Karier asked how BPA will approach Tier 2 power offerings. Will you identify resources and then quote customers a possible price? he asked. A lot still remains to be worked out, and we'll be exploring with our customers what their needs are, replied Gendron.

Our approach is that we are "agnostic" about whether we serve the growth in loads or not, he continued. We'll "do a bang-up job" for those who decide they want to put their load growth on BPA, Gendron added. But we understand it's a new time, and we respect that customers have choices and may develop their own resources, he said. BPA has a different role now – it's not the marketing approach we've historically had, Gendron stated.

Melinda Eden asked how the timing works if BPA is looking at resources now, and customers don't have to say until next year whether they want to buy Tier 2 products. We won't buy ahead of need, Gendron said.

Jim Yost asked whether the High Water Marks include a growth factor. The total of the High Water Marks won't exceed 7,400 megawatts (MWa) for service to existing customers, replied Gendron. We also said we would supply up to 250 MWa at the Tier 1 rate to new publics

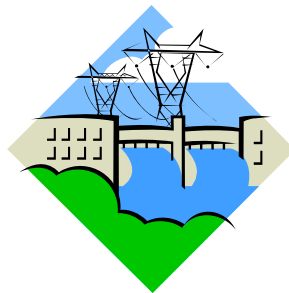
and tribal utilities, and the Administrator has been clear in his intention to offer contracts to all our customer classes, including the Direct Service Industries (DSIs), by the end of the year, he added.

With respect to the Residential Exchange, Gendron noted that BPA has completed its response to the Ninth Circuit Court order. We've established a new average system cost methodology and a new 7(b)(2) rate test, he reported. The exchange benefits have been established, and overpayments to investor-owned utilities (IOUs) will be returned to the public utilities over a seven-year period, Gendron told the Council. The IOUs are considering executing Regional Dialogue contracts that would go into effect in 2012, he said.

There remains uncertainty about the actual level of benefits for participating utilities and for the utilities that pay the benefits, according to Gendron. We are hopeful the utilities will be interested in reaching a long-term settlement of the Residential Exchange and that progress can be made, he concluded.

### **Alcoa Makes its Case for 240 MW of Federal Power**

Jack Speer, consultant to Alcoa, kicked off a panel presentation on a BPA-Alcoa memorandum of understanding (MOU) that would result in a proposed sale of 240 MWa of BPA power to Alcoa's Intalco plant from 2011 until 2028. Intalco, located in Ferndale, is "a real important piece of the fabric of the



community in that part of Washington state," he said.

The 240 MWa would serve about half the load at the Intalco plant; to serve the full load, Alcoa would have to buy the other half of the power in the market, Speer noted. He pointed out that BPA may also offer a contract to Columbia Falls Aluminum for up to 105 MWa, but said that is a separate arrangement and not part of the MOU with Alcoa.

Under the MOU, BPA's goal is to purchase the power from the market at less than \$73 per megawatt-hour (MWh), according to Speer. BPA would sell the power to Alcoa at the Industrial Power (IP) rate determined in each rate case, he said. Currently, the IP rate is \$35/MWh, while BPA's preference customer rate is \$26/MWh, Speer added.

Alcoa believes the Northwest Preference Act of 1964 and the Northwest Power Act were intended to provide full service from BPA to Intalco and other DSI plants, he stated. Others in the region believe it would be illegal for BPA to continue to serve aluminum plants, Speer said. BPA thinks it has the discretion to serve DSI loads, and these legal issues are before the Ninth Circuit Court in San Francisco, he noted.

If Alcoa prevails in court, a different contract may be required, but if others prevail, Alcoa's contract may end, according to Speer. If BPA prevails, the proposed MOU and contract should endure because the MOU is based on equity, he stated.

Alcoa has been a BPA customer for almost 70 years and has helped lower rates to all BPA customers, Speer

continued. The federal hydro system might not have been completed if it weren't for the DSIs, he said. At one point, BPA served six different Alcoa plants totaling more than 1,800 MWa, Speer pointed out. This MOU concentrates all our entitlements down to 240 MWa for one plant, he said.

If we have to go to the market to buy all of our power, it will cause the Intalco plant to close, Speer told the Council. It would not be equitable to meet regional load growth through discontinuing all service to the DSIs "just because other customers want slightly lower rates," he said.

You'll hear this is a subsidy, but it's not, Speer stated. This MOU would provide power at rates that are about 38 percent higher than rates to consumer-owned utilities, he said. If BPA is able to purchase 240 MWa of power at target prices for 10 years, Alcoa will commit to an annual payroll of \$48 million and can justify investing \$160 million in capital to keep the plant efficient and improve environmental performance, Speer added.

### Timing is Critical

Timing is very important because recent market conditions indicate it may be possible to allow Intalco to operate while limiting exposure for other BPA customers' rates, he stated. Bruce Measure asked what Alcoa's position is on whether the sale needs to go through the 6(c) process. We are attempting to acquire 240 MWa for a 10-year period, and that would qualify for a 6(c) process, but it could take a year to go through it, Speer replied. There are other methods that could be used that may not require

that process, or there could be a shortened 6(c) process, he said.

Market purchases under this MOU are different than the major resource acquisitions contemplated in Section 6 of the Power Act, Speer continued. The 6(c) process was for big projects like nuclear plants, but this is a market purchase, not a generation resource, and there's a different risk profile, he said. Alcoa is assuming the risk of non-performance and of stranded costs, Speer noted.

Can Alcoa resell the power? Eden asked. If we buy industrial power from BPA, we can't resell it, replied Speer.

We are asking the Council to work with BPA to minimize the time needed for BPA to acquire power under the MOU and to eliminate any duplication of processes involving BPA and the Council, he said. If we can't do a 10-year purchase, the MOU has provisions to do a five-year purchase, and that wouldn't need a 6(c) process, noted Speer.

Mike Rousseau, manager of the Intalco plant, told the Council "we'd like this to go as fast as possible" because the market window is open, and he said, "my biggest fear is that the window closes, and it impacts our community and region." He said the plant had cut its greenhouse gas emissions by half since 1990.

So you want to move forward in advance of the Ninth Circuit Court's decision? Council Chair Bill Booth asked. The existing contract will expire, and Alcoa has to make plans, replied Mike Dotten, Alcoa attorney. BPA recognized that and decided to offer this contract, he said. We have moved forward based on BPA's

thinking it has the authority to do this, and if the court decides otherwise, we'll have to undo this deal, Speer added.

The Council hasn't done a 6(c) for some time – "we've had to dust off the process," said Karier. We want to make sure whatever BPA does conforms to the Power Act, but I don't see why it would take an undue amount of time, he added.

I encourage you and BPA to think about demand-response provisions as the contract develops, Karier said. You should make sure the door is open to arrangements like short-term curtailments that are mutually beneficial to Alcoa and the power system, he stated.

We are eager and willing to enter into arrangements for reserves, said Speer. We should be working such things out, but they require a BPA rate case, and that takes time, he noted.

Is the Ninth Circuit litigation why you are asking for a shorter 6(c) process? Eden asked. It's to take advantage of market conditions, replied Speer. Section 5(d) of the Act requires the DSIs to provide power reserves, Eden said. How does this contract comport with the law? she asked. Intalco has proposed there should be interruptible rights, but the mechanism for compensation is the 7(i) rate process, replied Dotten.

There are interruptible provisions in our transmission contract, and we think that meets the letter of the law, said Speer. Eden asked the panel to provide her more information on the transmission reserves.



## PPC Says Not So Fast

Scott Corwin, executive director of the Public Power Council, said BPA's preference customers have a

different perspective on the equity aspect of the proposed power sale to Alcoa. To us, BPA is proposing to enter into a contract with Alcoa to acquire power at market prices and sell it to Alcoa at a price heavily subsidized by public utility customers, he stated.

The problem with the equity arguments is that they are vague in concept and vague in implementation, Corwin said. We object to the proposal because it is counter to BPA's legal mandate, fails to achieve any legitimate BPA goal, and is detrimental to the interests of the Northwest as a whole, and public utility customers in particular, he stated.

Corwin pointed out that numerous industries served by public utilities, such as Weyerhaeuser, NORPAC, and Longview Fibre, have filed comments with BPA opposing the sale. The publics and their industrial customers don't think BPA should be "picking winners and losers" in the private sector, he said. Our industrial customers think they have been "picked to lose" by BPA, Corwin stated, since retaining aluminum company jobs in one community means that "other equally deserving workers in other communities may lose their jobs because of higher power prices their utility must pay to subsidize Alcoa."

He noted that the current preference rate is \$26.9/MWh, closer to \$27 than the \$26/MWh which Speer had quoted. Through the Regional Dialogue, we are

entering a new era that's been a long time coming, Corwin stated. A key part of the Regional Dialogue is that BPA would no longer market power it doesn't possess, he noted.

We've moved to an era of encouraging conservation and diverse new resource development, and this proposal conflicts with that, Corwin told the Council. It would have one or two companies buy at the Industrial Power rate and that doesn't feel equitable to companies who are public utility customers, he said.

Corwin pointed out that studies conducted for the Council and BPA, such as one done by Beyers in 1996 and one by Hamilton and Robison the same year, show that, particularly at high power prices, the jobs gained in Whatcom County would be offset by jobs lost elsewhere, with perhaps a net loss of jobs in the region. The annual subsidy being proposed for the Alcoa plant is over \$140,000 per job, he said.

Congress' intent in the Northwest Power Act wasn't for one specially tailored deal for one specific company, according to Corwin. With all the changes that have occurred with prices and the economics of aluminum production, it's hard to see how the old mutually beneficially arrangement BPA had with aluminum companies is feasible today, he said. The fact that a mutually beneficial relationship existed in the past is not a good reason to establish a one-sided relationship for the future, and that's why we oppose this proposal, Corwin added.

There are a lot of questions about this proposal that need to be examined, he continued. For example, Corwin said, are renewable resources part of this mix,

or would it increase BPA's carbon footprint? What impact would a BPA purchase of this size in the near term have on its ability to make Tier 2 power purchases for new publics and new tribal utilities?

As for having a 6(c) process, the first question is whether this proposal should move forward at all, and we think it shouldn't, Corwin told the Council. But if it does, we wouldn't want that process to get short shrift, he said.



### **Draft Power Plan to Debut in May**

Staffer Terry Morlan briefed the Council on the Sixth Power Plan,

pointing out that staff has worked intensively over the past year to develop the information and refine the analytical tools needed for the plan. We expect to have a draft plan for the Council to release in May and a final plan ready for adoption in August, he noted.

Morlan listed some "big changes" from the last power plan. These include: higher fuel prices; climate change policies that increase uncertainty and risk for the power system; the need to address seasonal, daily, hourly, and within-hour loads, in addition to planning for annual energy needs; and the increasing importance of transmission capability and operation.

Morlan said the biggest issue over the next 20 years is how the region will meet demand. He noted that nuclear power won't be able to meet it in the short term, that natural gas is expensive, and that using "brain power" to find and employ

new energy-efficiency measures will be very important.

Eden, who chairs the Power Committee, said that committee had recently received presentations on efficiency potential in a variety of sectors in the Northwest, such as agriculture. Staff hasn't yet added up all the numbers and posed a reasonable conservation target the region should shoot for in the next 20 years, but "that's the kind of pulling together of the pieces" the Power Committee will be doing, she noted.

It's important to keep in mind preparation of the plan is intended to be a highly public process, staffer John Shurts said. The full Council can help in making sure that happens, he added. The overall message the plan sends to the region is important, and the full Council should be involved in presenting it, Booth stated.



### **Get Ready for Some NEET Recommendations**

Ken Canon, facilitator for the

Northwest Energy Efficiency Taskforce (NEET), brought the Council up to date on NEET's progress. NEET's objective is to accelerate the achievement of energy efficiency in the Northwest, especially through collaborative efforts, he said. There has been a lot of talk about renewables, and NEET is aimed at reasserting the dominance of energy efficiency as a long-term goal for the region, Canon stated.

He described what NEET's six work groups have been doing. They are: Measuring What Matters, Emerging Solutions and Technologies, High Impact

Energy Efficiency Initiatives, Marketing and Public Awareness, Building the Energy Efficiency Work Force, and Governance and Energy Efficiency Policies. We've had over 300 participants in the six work groups, Canon pointed out. The work groups presented their draft recommendations at an executive committee meeting October 3, he said.

We are pleased with what the work groups came up with, Canon stated, adding that we asked them for "actionable recommendations that will really make a difference." We are working to have a draft report out on January 9th, he said.

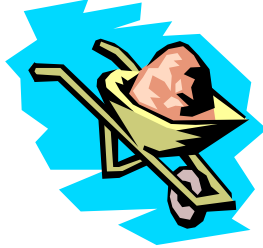
This region's interest in energy efficiency is unprecedented, said Karier, who is one of the Taskforce co-chairs. There will be a number of recommendations from NEET that will have a lot of regional momentum and support, and it will be important for the Council to pick up the ball and work to implement them, he stated.

I think "the heart and soul" of conservation is going to be behavior changes, said Dick Wallace. That will take a big outreach campaign – are people thinking big like that? he asked. I think what will be important is providing customers with more information, replied Canon. For example, when people pump gas, they get an immediate price signal, but we send electricity bills out at the end of the month, and that's too late, he said.

Better, smarter meters would help customers understand their use immediately and help them see how their behavior affects their usage, Canon stated. There are some incredible

opportunities coming up for utilities to develop better relations with their customers with respect to energy efficiency, he added.

### **Is Night Charging Cheap, but Dirty?**



The Pacific Northwest National Laboratory (PNNL) is the lead federal laboratory looking at the interactions of plug-in hybrid electric vehicles (PHEVs) with the power grid, Dr. Michael Kintner-Meyer of PNNL told the Council. We are looking at whether our infrastructure can support the driving of these vehicles, he said. Another question, according to Kintner-Meyer, is: how can we build an interface so that customers don't have to jump out of bed at 11 pm and say "I have to go plug in my vehicle."

We've considered whether the electric grid can help the country move away from dependence on foreign oil, he noted. We found the idle capacity of today's grid could supply 73 percent of the energy needs of the light-duty vehicle fleet in the United States, if they were PHEVs, provided the charging of the vehicles is done in a managed manner throughout the day and night, Kintner-Meyer said. If you have only night-time charging, 43 percent of the vehicles could be fueled, he noted.

There's a large potential to displace oil imports, reduce CO<sub>2</sub> emissions, and introduce a vast electricity storage potential for the grid, Kintner-Meyer said. With the fully charged batteries from 215 million vehicles, we found you could run the grid for seven minutes for the whole United States, he pointed out.

There are a lot of advantages to utilities from having this storage, Kintner-Meyer added.

We are now talking to experts and looking at various scenarios that go out to 2030, he said. We are trying to figure out how many cars there will be and how the load from the cars can be moved to the "sweet spot" of off-peak hours, Kintner-Meyer reported. We've determined that the first PHEVs will be introduced in the market in 2010 and that they will be mass-produced by 2013, he said.

All of our results are sensitive to when PHEVs are charged, Kintner-Meyer noted. We envision there will be public charging stations, as well as workplace charging stations, he said. In our modeling of the Western Electricity Coordinating Council area, we assumed that the majority of the 9.2 million PHEVs in that area in 2030 would be in California, Kintner-Meyer explained. We found that in California, the highest costs were associated with vehicle charging during the day, and the lowest costs with night charging, he said.

But, according to Kintner-Meyer, there is a big debate going on about whether charging during the day is cleaner than during the night with respect to greenhouse gas emissions. We found there is more coal being used for charging that takes place after 10 pm than during the day, and this applies to the whole Western grid, he said. CO<sub>2</sub> emissions from night charging are about 26 percent higher compared to day charging because day charging relies on natural gas, Kintner-Meyer stated.

He said proposed cap-and-trade systems could have a great impact on the question

of when you should charge your vehicle vis-à-vis emissions. We have the opportunity now to think about standards for charging PHEVs so that when the PHEVs are plugged in, they will be beneficial to the electricity grid, Kintner-Meyer stated. The automobile industry and the electricity industry are coming together so that smart vehicles will be able to talk with smart houses, he added. And the PHEV load, unlike that for computers and televisions, is benign with respect to short-term interruptions, Kintner-Meyer noted.

He recommended "incentivizing early adopters" and pointed out that several Northwest utilities, including Snohomish PUD and Seattle City Light, are working on these questions. Kintner-Meyer suggested the Council encourage such efforts.



### **Whole Lot of F&W Comment Going On**

Staffer Patty O'Toole reported it will take three

months after the comment period closes on December 1 to finish up work on the Council's fish and wildlife (F&W) program amendment process. We'll summarize all the comments and identify the main issues that have arisen in them at the December meeting, she said.

We'll have a revised draft of the program for you before the January meeting, and at that meeting, we think it will take a full day to review the draft, O'Toole told the Council. The schedule calls for a final vote on the program in February, with the adoption of the program findings in April, she said.

Staffer Sandra Hirotsu highlighted some of the areas of the program that have received a lot of comment thus far. With respect to biological objectives, we are getting comments that the program lacks specific quantitative goals and needs to include subbasin and province-level biological objectives, she said. We received many comments on eliminating the 5 million fish goal, with some approving, and others saying the Council "shouldn't retreat" from it, according to Hirotsu.

There were many comments about the Fish Passage Center, including concerns about whether it can provide objective analysis, and suggestions that the FPC not be specifically named in the program at all, she said. A lot of comments involved hatcheries and harvest, with some supporting the Council taking on hatcheries and harvest issues, but others saying the program must be consistent with *U.S. v Oregon*, the Columbia Basin Accords, the Pacific Salmon Treaty, and tribes' treaty rights, Hirotsu reported.

There were comments both for and against a 2-to-1 crediting ratio for wildlife mitigation, she said. We received favorable comment on the Independent Scientific Review Panel (ISRP) and support for streamlining ISRP reviews, according to Hirotsu.

Research, monitoring, and evaluation (RM&E) was "a hot topic," she said. There was support for clear guidance on RM&E data collection, for performance metrics and reporting measures, and for the Council's high-level indicators, Hirotsu noted. Subbasin plans got a lot of comments, with calls to expedite updating them, support for continuing to use them as the basis for project review,

and spelling out their relationship to recovery plans, she said.

We received numerous comments about the level of detail in the program, with some people supporting a "high-level" document, and others wondering why specific detail was omitted, Hirotsu continued. There were recommendations that tribal measures be incorporated and given deference, she said. We had many comments about the impact of the program on power prices, with some people saying they are counting on the Council to hold the line and make sure money is well spent, she reported.

#### According to CBFWA

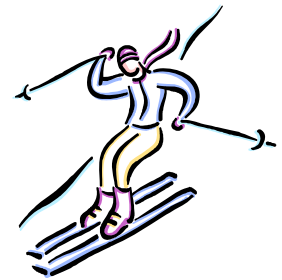
Brian Lipscomb, executive director of the Columbia Basin Fish and Wildlife Authority (CBFWA), presented comments on the Council's draft F&W program. He said the program needs to outline the role of the F&W agencies and tribes and others in planning, implementing, and evaluating the F&W program, and it needs a well-defined adaptive management architecture, as recommended by the F&W agencies and tribes.

The program should include recommendations for a methodology to conduct resident fish loss assessments, as well as operational loss assessments for wildlife across the basin, Lipscomb said. He described a process the Council could use to update subbasin management plans, which would include the agencies' and tribes' subbasin summaries, and said the multiyear work plans recommended in the Council's program should be developed as part of the subbasin management plans. The multiyear work plans and a mainstem plan could be

adopted by June 2009, according to Lipscomb.

Are you asking to extend the schedule for the F&W program? Eden asked, noting the Council has a Power Plan to adopt in 2009 as well. By June of next year, we would like to have the subbasin summaries and multiyear work plans updated, Lipscomb replied. That could be done through an extension of the program, or there could be a different, later process, he said. The point is, by June 2009, we would like all the multiyear work plans done and tied back to the subbasin summaries, Lipscomb added.

#### **High-Level Indicators Picking Up Momentum**



Karier reported on progress in developing High-Level Indicators, which he said give the Council a way to report on and measure the success of its F&W program and also to prioritize RM&E in the program. He described four milestones. The first is developing a list of indicators. We have done that and come up with 17 of them, Karier stated.

The second is creating a web site, and we are working on that, he said. The third is to identify sources of data and populate the indicators with that information, Karier noted. This major step precedes the fourth milestone, which would be carrying out a categorical review of the program's existing RM&E, based on the indicators, he said.

Of the 17 indicators we've developed, two are completed, 13 are under way, and

two have yet to be assigned, Karier reported. Our goal is to have them all finished by June of next year, he said. Karier described several of the indicators and explained how data for them is being gathered and by whom.

He said he hopes the indicators will be in good enough shape that the Council can use them in a review of RM&E in the program between July and December of next year. RM&E is taking a lot of the budget of our program, Booth stated. We've gotten many questions about how the program can be more efficient and about what money is being spent for, so I appreciate the work Tom is doing on these indicators, he said.

**END NOTES**

**Fuel Prices Moving Around.** In light of comments received on the Council's paper, Preliminary Draft Fuel Prices for the Sixth Power Plan, Morlan reported that some revisions will be made. We will broaden the range of prices for natural gas, he said. We have lowered near-term fuel prices, and there may be additional effects from the recession, Morlan noted. We will also clarify the treatment of CO<sub>2</sub> costs, he said.

**Local Government Left Out in Land Buy.** Doug Payne, prosecutor for Benawah County, Idaho, told the Council the county has had a problem being heard when it comes to the Albeni Falls wildlife mitigation program. Even though the Northwest Power Act calls for local government participation, when it came to BPA paying to acquire thousands of acres in our county, "we didn't have any say-so whatsoever," he said.

When 87 acres were purchased last September, the county had no notice or chance to comment, Payne stated. The land didn't have a high wildlife value, but had a high development value, he said. BPA paid \$16,321 per habitat unit, while similar purchases in the county have been made at \$4,375 per unit, according to Payne. He asked the Council to recognize the problem of no input from local residents, and he questioned if the purchase "was in the interest of ratepayers, the tribe, or anyone else."

# # #

**Council 2008 Calendar**

December 9-11 Portland, OR

**Council 2009 Calendar**

January 13-15 Missoula, MT  
 February 10-12 Portland, OR  
 March 10-12 Boise, MT  
 April 14-16 Skamania, WA  
 May 12-14 Walla Walla, WA  
 June 9-11 Whitefish, MT  
 July 14-16 Portland, OR  
 August 11-13 Spokane, WA  
 September 9-10 Oregon  
 October 7-9 Ketchum, ID  
 November 12-13 Teleconference  
 December 8-10 Portland, OR