



**WESTERN MONTANA ELECTRIC
GENERATING & TRANSMISSION COOPERATIVE, INC.**

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BY ELECTRONIC MAIL

Mark Walker
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RE: WMG&T Comments on Draft Fifth Power Plan

Dear Mark,

The members of Western Montana Electric Generating and Transmission Cooperative (WMG&T) appreciate the opportunity to comment on the Power Planning and Conservation Council's (the Council's) Draft Fifth Power Plan (the Plan). There are seven utility members of WMG&T, all of whom buy most or all of their power from Bonneville Power Administration (Bonneville or BPA). These members serve over 110,000 member-owners in Western Montana and have an average load of over 270 aMW.

Our comments can be distilled into four points:

1. The region responds to the Council's Plan. History shows that past Plans have heavily influenced the direction of regional resource acquisitions.
2. There is a growing "reality gap" between the Plan's view of the region planning and operating as a single, vertically integrated utility versus the increasingly disaggregated nature of resource decision-making.
3. The Implementation section of the draft Plan focuses only on Bonneville; no other entity is even mentioned. It also appears at odds with the previous section on Bonneville's future role. Unless this section is heavily revised and expanded, the Council risks publishing only a "faith-based" Power Plan.
4. The areas of wind acquisition and conservation implementation need additional work.

The Region Responds to the Council's Power Plans

We have followed the Council's power planning process from the first Power Plan to the present and it is clear that the region does respond to what the Council puts in its Plan. In the first and second Plans, the Council emphasized the need for a strong regional conservation program. The result was that the region launched the world's largest and most extensive conservation program. The third Plan discussed the desirability of using gas-fired generation to firm some of the region's non-firm generation, while still pursuing conservation. As the current draft Plan indicates, gas-fired generation now has grown to approximately 22 percent of the electricity generation in the region under average water conditions. The fourth Power Plan emphasized use of the emerging power market with the potential for 3,000 MW of power over the next ten years at \$20/MWh. A number of utilities followed that strategy, but soon discovered the serious consequences of relying on a market that is illiquid and subject to manipulation.

The point is that the Power Plan is used by Public Service Commissions, siting agencies, utilities and Bonneville. It has an impact on both utility resource acquisition and spending plans. The Power Plan does matter; hence our desire in making sure it is both relevant and useful.

The Growing "Reality Gap"

The Council's draft Plan assumes, as have past Plans, that the region plans and operates as a single, vertically integrated utility system. That assumption was less heroic in years past when it was expected that Bonneville would be doing resource acquisition for virtually all the public utilities and possibly the investor-owned utilities (IOUs).

The electric utility industry is radically different than when the Council wrote its first Power Plan, and it is moving away from the notion of unified regional planning and operations. There is virtually unanimous agreement on the need to reduce Bonneville's role in resource acquisition. Slice customers and some regional industrial customers are now looking for resources to meet their load growth, as are the traditional generating public utilities. Full requirements customers may have that option as well post-2011. One of the region's IOUs has virtually no generating resources of its own. A whole series of IPPs have constructed 3,000 MW of generation in the region without any load-serving obligations.

Despite all these changes that define a region moving away from the single utility view of the world, the draft Plan makes no mention of the impact these changes have for implementation of the Power Plan. The gap between the Plan's assumption about single regional utility planning and the reality of even more entities involved in resource acquisition decisions than ever before should be a serious concern to the Council. The result of this "reality gap" is the Plan could be less relevant and useful than it otherwise could be.

The Implementation Section

Nowhere is the failure to acknowledge the changed utility world more evident than in the section on Implementation. There are two main problems with this section of the draft Plan. First, the section only deals with Bonneville and not any of the other entities that are or will be acquiring

resources. Second, the Plan needs to acknowledge the reasons entities acquire resources and the different reasons those entities may acquire certain resources. Both of these problems point to the need to make this Plan more relevant to the actual resource acquisition decisions, and thus more useful.

This section only discusses Plan implementation by Bonneville; no other entity gets so much as a mention. There is no discussion of the public generators and Slice customers that intend to meet their own load growth requirements. There is no discussion of IOU resource. There is no mention of the IPPs and industrial customers who have constructed the vast majority of the new generation brought on line in the last few years. The only focus of the implementation section is Bonneville. Is no other entity responsible for implementing the Power Plan?

Additionally, the Implementation section appears wholly incompatible with the draft Plan's previous section on the Future Role of Bonneville. In that section, the Plan discusses the Council's previously developed position regarding what Bonneville's future role in resource acquisition should be. The Council reiterates its recommendation that Bonneville allocate the output of the Federal Base System and acquire additional resources only after signing bilateral contracts that obligate the customers desiring those acquisitions to pay the full costs thereof.

The Implementation section, however, appears to ignore this new vision for Bonneville. It reiterates the Northwest Power Act's requirement that Bonneville acquire all cost-effective conservation. How do these two sections fit together? Will all new Bonneville conservation costs be put into Tier 1 after allocation, or will those costs go into Tier 2? If the answer is Tier 1, then the whole premise of allocation as a means to define Bonneville's resource acquisition obligation has been destroyed. If the conservation costs go into Tier 2, then the Bonneville customers can decide if that is the resource alternative they wish to choose.

If the Council decides to expand the Implementation section of the draft Plan to include the role of individual utilities, we believe it is important that the Council understand the questions a utility Board asks itself when considering its resource future. Here are a few of those questions:

- What new resources will my utility need? What customers am I obligated to serve and who might leave after I acquire something?
- What resources are actually available to me? What are the transmission constraints, what resources will complement my existing resources and what is available in the amount that I need?
- What is the Board's risk profile? A good example of differing risk profiles are those Slice customers that have built resources to back their Slice purchases versus those that are relying on market purchases.

- What happened to others who tried the strategy I am considering? What happened to those utilities that sold their share of Centralia and then relied on the market? What happened to the utilities involved in Colstrip 4, Tenaska and Trojan?
- What are the biases within my local community? A good example of this point is the differing approaches of Central Montana Electric Power Cooperative versus Southern Montana G&T. Central Montana chose an existing supplier with significant coal-based resources while Southern has opted to build a coal-fired plant themselves.

It is also important that the Plan acknowledge what entities that are currently acquiring resources are actually doing. For example, Puget Sound Energy, Portland General Electric, Idaho Power, PacifiCorp in Utah and Northwestern Energy are all in various stages of resource acquisition. The Plan should at least indicate where these systems are going and why it may be different from what the Plan now suggests should be acquired.

Somehow the Plan needs to acknowledge that resource acquisitions are made for a variety of reasons, many of which do not fit within a computer model. Our concern is that the draft Plan, for all its bells and whistles regarding risk analysis, is getting farther and farther from the reality of regional resource decision-making. We urge the Council to get out from behind the results of the thousands of Monte Carlo simulations to see how real resource decisions are made and why. Only then will the Power Plan be clearly relevant to the individual choices and decisions of the entities actually acquiring resources.

The Role of Wind

Wind plays an extremely important role in the draft Power Plan, with 1,000-2,000 MW of additional capacity to be acquired over the next 20 years, with up to 5,000 MW of wind potentially available. The draft Plan acknowledges that for this amount of wind to be developed the following must occur: wind plant cost reductions; wind turbine technology improvements; relatively low integration costs; and the ability to extend transmission lines to wind resource areas. Setting aside the assumptions about wind plant cost reductions and technology improvements, the integration and transmissions questions are huge.

The Council should immediately begin investigating the questions of wind integration into the existing resource base. While wind integration with hydroelectric resources is appealing on its face, the ability of the hydro system to respond to rapid changes in the output of wind or other intermittent resources has been severely reduced in recent years. The system stability costs of including this magnitude of wind resources are also not clear. For example, what happens to system stability when wind resources are added in Montana but the firming is done from hydro resources in the Mid-Columbia?

The assumption regarding the transmission facilities necessary to connect wind resources to the backbone grid is also an important question. The discussion in Section 5 on generating resources does not indicate whether the costs of transmission facilities necessary to connect the wind

resource to the existing transmission grid were included in the cost of the wind resource. In Montana, this lack of transmission facilities and the question of who should pay for them have virtually halted development in an area of the state that some have called “the Saudi Arabia of wind.” The Council should address the questions of both wind resource integration and transmission facilities necessary to connect wind resources to the grid in its final Plan as a part of its recommendation that the region acquire wind resources of the magnitude included in the draft Plan.

Conservation Acquisition

We have no reason to doubt the veracity of the estimated available conservation savings included in the draft Plan. The question is: Who is supposed to do the acquisition? Again, because of the changing nature of the utility industry, this question has significantly more relevance than in past Power Plans. Whereas in the past the Council could look to Bonneville, a few generating public utilities and the IOUs to meet the conservation goals of the region, this paradigm is no longer operable. Given the increasing disaggregation of regional resource acquisition, it is imperative that the Council provide direction not only on how much and what types of conservation the region should pursue, but also how that resource will be acquired.

Another aspect of this question is the specific impact of conservation acquisitions on the acquiring entity. The negative rate impacts from conservation acquisition and ideas for mitigating them are well documented. Less considered, however, are the questions of how conservation acquisitions affect the cost shifts between utility systems for those that are Bonneville customers and how conservation acquisition could affect future net requirements determinations in a world after a Bonneville resource allocation. Both of these questions will significantly affect how Bonneville customers are likely to view calls for ramped-up conservation acquisitions.

Summary

While the Power Plan does influence regional decision makers, this draft Plan runs the risk of being less relevant than its predecessors because the regional resource decision making has become so disaggregated. No longer are these decisions being made by Bonneville, the IOUs and a few generating publics. The addition in the few years of IPPs, Slice customers and potentially Bonneville full requirements customers as resource acquirers directly challenges the basic planning assumption contained in the draft Plan. Unless this assumption is addressed directly by the Council, the Plan’s relevance to the real decision-makers will fade from view.

The Implementation section of the Plan needs considerable work as it only mentions Bonneville and no other entity. The conservation targets are aggressive, but it is unclear who is actually supposed to do the acquisition. The assumptions necessary to reach the wind resource goals are heroic, but the details of transmission and integration are lacking.

We stand ready to help make this Plan one that can truly stand as a guide for regional resource development.

Very truly yours,

/s/

William K. Drummond
Manager

cc: WMG&T Board & Managers
Steve Wright - BPA
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