

FRANK L. CASSIDY  
JR.  
"Larry"  
CHAIRMAN  
Washington

Tom Karier  
Washington

Jim Kempton  
Idaho

Judi Danielson  
Idaho

## NORTHWEST POWER PLANNING COUNCIL

851 S.W. SIXTH AVENUE, SUITE 1100  
PORTLAND, OREGON 97204-1348

ERIC J. BLOCH  
VICE CHAIRMAN  
Oregon

John Brogoitti  
Oregon

Leo A. Giacometto  
Montana

Ed Bartlett  
Montana

**Fax:**  
503-820-2370

**Phone:**  
503-222-5161  
1-800-452-5161

**Internet:**  
[www.nwcouncil.org](http://www.nwcouncil.org)

January 9, 2002

### MEMORANDUM

**TO:** Council Members

**FROM:** Dick Watson and Tom Eckman

**SUBJECT:** Recommendations re Efficiency Power Plant Issue Paper

#### Background

In October the Council released an issue paper entitled "An Efficiency Power Plant – An Interim Goal for the Northwest." The paper was motivated by the observation that utility investment in efficiency has followed a "roller-coaster" path, investing at levels that are below cost-effective rates of acquisition when power costs are low and then scrambling to promote efficiency when prices are high. For many years, efficiency advocates, including the Council, promoted the "flexibility" of efficiency – the ability to ramp efficiency investment up and down in response to relatively short term changes in the electricity demand. When compared to the much longer coal or nuclear plant construction schedules the ability to adjust the pace of efficiency acquisitions, does indeed make it more "flexible." However, it is not clear that the region's ability to ramp efficiency programs up and down is as flexible as electricity costs are volatile. To track recent swings in wholesale electricity prices utility and contractor programs and staff would need to expand and contract at impossible rates. In addition, after several "cycles" the message sent to the consumer about the need to invest in efficiency might begin to sound like Chicken Little. Finally, given the current regulatory structure in much of the region, the lags between wholesale and retail price changes will continue to frustrate price-induced conservation response. If the expectation is that power markets will exhibit a "boom and bust" pattern in the future, as many think they will, it may be wiser to pursue conservation at a steady pace that can be justified by long-term cost-effectiveness.

The question of sustained investment in efficiency, how to achieve it and the role of different parties – Bonneville, local utilities, the states – in doing so is a difficult one. It is one that the Council will address in the Fifth Power Plan. In the mean time, the Issue Paper suggests an interim regional efficiency target of 100 average megawatts per year for the next three years as a means of maintaining momentum while the plan is developed and these issues are resolved. The 100 average megawatts are based on the Council's last plan. The issue paper further proposes that each utility's or direct access customer's share of the target be based on each entity's percentage of regional electricity consumption based on the most recent year for which data is available. The target is voluntary. The intent is not to have a rigorously enforced target for each entity or to dictate what conservation programs are undertaken or how they are delivered. The intent is rather to put a spotlight on the importance of continued attention to improving the efficiency with which we use electricity and establish an expectation that all will do their part. The Council recognizes that some

utilities in the region are already planning for more than “their share” of this goal and applauds them for their initiative. The Council also believes that there are some who have planned on doing less. The Council hopes that this will encourage them to reach farther.

## **Public Comment**

The Council took written and oral comment on this issue paper. Commentors included Bonneville, several individual utilities, the Public Power Council, the Washington and Idaho public utility commissions, the Washington and Oregon state energy agencies, the Northwest Energy Coalition, the Northwest Energy Efficiency Council (an efficiency industry group), and the Industrial Customers of Northwest Utilities (ICNU). Most of the comment was supportive to greater or lesser degrees. The most critical comment was from ICNU. The key elements of their comments and the staff’s response are as follows:

- *The proposal pre-judges the results of the Fifth Power Plan on the amount of conservation to be tapped and the idea of sustained investment in efficiency.* To some degree this is true. The question is how bad a mistake could we be making. We are only talking 3 years and basing the target on what some view as a conservative cost-effectiveness limit. This means that the risks are minimal that any significant amount of non cost-effective conservation will be acquired. Utilities and direct access customers who are concerned about over-investing in conservation can focus their programs on low-cost conservation opportunities as a safeguard. While the target was based on conservation potential costing up to 3.0 cents per kWh, there is sufficient conservation potential to reach the annual target of 100 average megawatts at costs below 2.0 cents per kWh. The Fourth Plan’s estimate of conservation availability shows there are approximately 500 average megawatts of conservation potential in existing buildings and facilities at a total regional levelized cost of at or below 2.0 cents per kWh.

It is correct that adopting this three-year target pre-judges the value of sustained conservation levels versus modulating them to match changes in to wholesale prices. However, it is also the case that since sufficient conservation potential is available to reach the target at costs well below virtually all recent Council forecasts of long-run wholesale market prices, this it is a moot point.

- *The target level is too large and does not take into account consumer-initiated conservation.* It is impossible to determine customer-induced from program-induced conservation wherever and whenever consumers can chose to participate in utility programs. Utilities will report all conservation achieved under their programs, some of which will not doubt occur because consumers will be responding to retail price increases. With increased utility programs, we expect the amount on non-programmatic conservation to be small. Also, as stated previously, concerns about the target being too large do not seem warranted given there is ample conservation potential available at below 2.0 cents per kWh to achieve the 300 average megawatt “power plant” goal over three years. Moreover, since the region’s utilities undershot the Council’s targets by about half in four out of the past five years it is unlikely we have used up this potential since the Fourth Plan’s estimates were developed. Also, with the exception of the last year, there is no great evidence that consumer-initiated efficiency has been a great deal greater than that anticipated in the last plan. Finally, new technology that has entered the market since the Fourth Plan’s estimates were developed could add to the region’s potential for efficiency gains.

- *We need to resolve the issue of Bonneville's role in resource acquisition, including efficiency.* We agree and think that is an important topic for the Fifth Power Plan. The share of the target that BPA and its customers are responsible for is fixed for the current contract period. The role of BPA should play in reaching that target is a legitimate issue to be resolved, but the target remains unchanged because it is tied to loads, whether served by BPA or another supplier.

## **Staff Proposal**

1. The Council adopt an interim efficiency improvement goal of 100 average megawatts per year for three years.
2. The Council encourage regional utilities, conservation administrators and direct access customers to voluntarily do "their share" based on their share of regional load. This encouragement would include letters to the affected entities as well as outreach through the media.
3. Council staff will continue efforts to track regional conservation budgets and accomplishments in conjunction with the region's utilities, direct access customers, state utility commissions, state energy agencies, the Energy Trust of Oregon and Bonneville. The Council will produce an annual regional report on plans and accomplishments. Individual utility or direct-access user data would be included in the report except where an entity has requested that it not be included
4. If, through the Council's analyses for the Fifth Plan or through the tracking data, it became clear that the target should be changed, the Council would do so.