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December 1, 2010

MEMORANDUM

TO: Council Members

FROM: Jeff King

SUBJECT: Forecast of surplus energy events and possible mitigating actions

Action GEN-10 of the Sixth Northwest Conservation and Electric Power Plan calls for the Council to undertake an assessment of the potential extent of the future unbundled renewable energy credit (REC) market, the resulting benefits and costs, and actions needed to remedy possible negative impacts. One effect of an unbundled REC market has been rapid development of Northwest wind resources for supplying RECs to satisfy the renewable portfolio standard (RPS) obligations of California utilities. This development, coupled with wind development to supply energy to meet the RPS obligations of Northwest utilities appears to be leading to an increase in episodes of surplus energy. Episodes occurred in 2008, 2009 and 2010 and were accompanied by unusually low market prices for power. This has raised concern among hydropower operators regarding revenue impacts. The June 2010 episode was particularly severe and highlighted the potential conflict between the production of RPS-qualifying energy and compliance with in-river dissolved gas limits.

Council staff is preparing a forecast of surplus energy events and a paper describing the factors driving these events, the economic effects of these events, and possible actions to remedy negative impacts. Modeling difficulties extended this work longer than anticipated, however, the modeling problems have been resolved and a draft paper is being prepared.

Staff will discuss the findings of this work and review the contents of the paper during the Power Committee webinar. Because the paper could provide a useful contribution to ongoing regional efforts to resolve issues associated with surplus energy events, staff recommends that the paper be released for public review and comment.