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April 26, 2005

Mr. Steve Wright  
Administrator and Chief Executive Officer  
Bonneville Power Administration  
PO Box 3621  
Portland, OR 97208

Dear Mr. Wright:

The Northwest Power and Conservation Council commends the Bonneville Power Administration (Bonneville) for its stated commitment to achieve its share of the cost-effective conservation targeted in the Council's Fifth Northwest Power Plan. However, we are concerned that the funds remaining for the current rate period and those included in Bonneville's March 28 proposal for conservation funding for the rate period of fiscal years 2007-2009 are insufficient to achieve Bonneville's share of the regional target. Bonneville estimates its share to be 40 percent or 280 average megawatts for the period 2005 through 2009. We encourage Bonneville to increase its proposed conservation budget to levels that are more likely to achieve that target. In addition, the Council requests that Bonneville document its success in achieving its conservation goal at least annually in order to demonstrate consistency with the Council's plan. If necessary, Bonneville should be prepared to implement a contingency plan to achieve the conservation target.

The Northwest Power Act gave the Council and Bonneville the mission of serving as stewards of the Columbia River Power System. The Council's plan is formulated to assure the region an adequate, efficient, economical and reliable power system. A major conclusion of the Fifth Power Plan is that cost-effective conservation should be implemented aggressively beginning in 2005 and sustained through 2009 and beyond. By doing so, the region can be assured that sufficient conservation is in place to defer the need for new generation and to protect against the risk of high market prices for power. The incremental cost to the region's power system of accomplishing the plan's conservation goals is a one-time increase in annual utility revenue requirements of less than 1 percent.

The Council has reviewed Bonneville's estimate of the current and proposed conservation targets for publicly owned utilities, conservation already achieved in the current

rate period, and the amount of current and proposed funding to achieve conservation during the 2005-2009 period. As part of this review, concern has been raised that Bonneville does not include conservation on the investor-owned utility exchange load in its targets even though Bonneville provides funding for the exchange. Setting this issue aside, we estimate that to meet its target, Bonneville would have to acquire conservation at a cost that is significantly lower than the cost at which conservation has been acquired in the past. This estimate is documented in the included attachment. In our judgment, it would be extremely difficult to improve the cost efficiency of conservation acquisition sufficiently to achieve the necessary conservation with Bonneville's proposed budget.

We encourage Bonneville to fund conservation at a level more likely to reach Bonneville's share of the Council's target. In addition, we request that Bonneville develop a contingency plan to assure acquisition of its share of conservation by 2009.

Sincerely,

Melinda S. Eden  
Chair

Attachment

## **Bonneville's Conservation Target**

### ***What Period Are We Talking About?***

Bonneville has proposed a target based on 40 percent of 700 average megawatts for the period 2007 through 2011. This equals 280 megawatts. The 40 percent corresponds to Bonneville's estimate of the percentage of regional load for which it has conservation responsibility. The target in the Fifth Northwest Power Plan for that same period is 755 average megawatts, of which Bonneville's estimated 40 percent share would be 300 average megawatts. This reflects the fact the plan gradually increases the rate of conservation acquisition over time.

The 700-average-megawatt figure corresponds to the period 2005 through 2009, the period covered by the plan's Action Plan. While the plan calls for continued aggressive development of conservation beyond 2009, it is the five-year Action Plan period that is of immediate concern. This is the relevant period with regard to the adequacy of Bonneville's proposed conservation funding. The funding available for that period is the current rate period funding available through for 2005 and 2006 plus the proposed funding for the upcoming 2007 through 2009 rate period.

### ***Bonneville's Share***

Figure 1 shows Bonneville's share based on 40 percent of the regional target, Bonneville's share reduced by Bonneville's estimate of "naturally occurring" conservation<sup>1</sup>, and Bonneville's current and proposed acquisition plans.

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<sup>1</sup> Conservation that would take place absent utility programs. Bonneville has assumed 7 percent of the conservation would be naturally occurring.

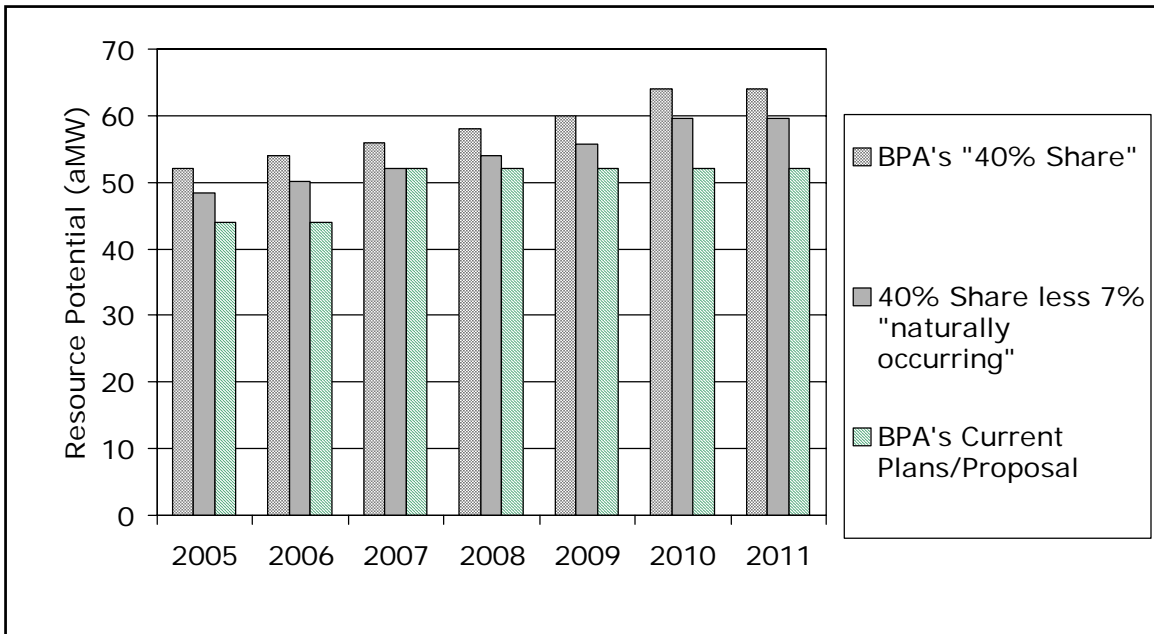


Figure 1

As Figure 1 shows, even if Bonneville can demonstrate that the natural conservation occurs, Bonneville's current plans and proposed future levels fall short of 40 percent of the regional target.

## Can Bonneville Meet its Targets with the Proposed Budget?

During the period 2001 through 2004, Bonneville accomplished 166 average megawatts of conservation at an average cost of \$1.7 million per first-year average megawatt (in 2008 dollars). There was exceptional focus on conservation during this period as a result of the Western electricity crisis. Bonneville is proposing to achieve 156 average megawatts<sup>2</sup> during the 2007 through 2009 period at an average cost of \$1.44 million per first-year average megawatt (in 2008 dollars). This represents a nearly 20-percent improvement in the cost per average megawatt to be achieved without the added impetus of an electricity crisis.

To achieve 40 percent of the 700-average-megawatt 2005-2009 regional target with the existing 2005-2006 and proposed 2007-2009 conservation budgets would require achieving conservation at an average cost of \$1.27 million per first-year average megawatt (in 2008 dollars). This would be a 33-percent reduction in the average cost per average megawatt saved.

How likely is it that conservation can be acquired at the costs implied by Bonneville's proposed targets and budget? To answer that question, staff examined the cost-efficiency of conservation acquisition, as measured by the cost per first-year average megawatt, by

<sup>2</sup> This reflects a 7 percent reduction for "naturally occurring" conservation

nine major Northwest utilities, including Bonneville, and the Northwest Energy Efficiency Alliance for the years 1991 through 2002. The objective was to see the frequency with which conservation was acquired at costs as low or lower than the costs associated with Bonneville’s proposal. The data were plotted as a cumulative distribution as shown in Figure 2.

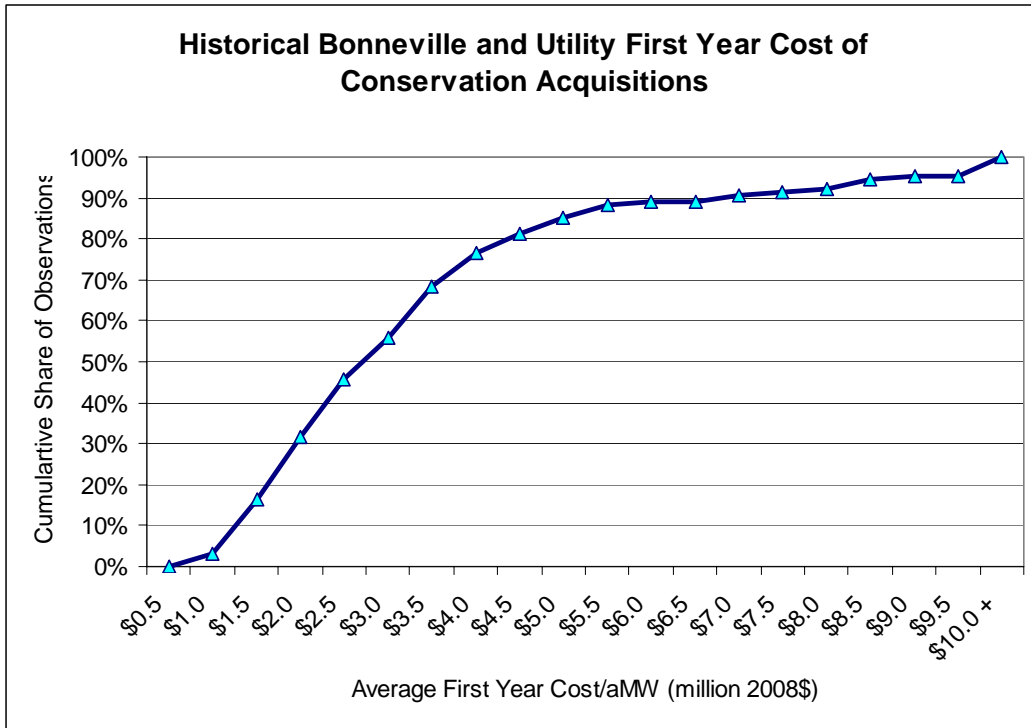


Figure 2

Figure 2 shows that in only 15 percent of the cases (utility and year combinations) was conservation acquired for \$1.5 million per first-year average megawatt or less. Because many utilities rely solely on Bonneville conservation mechanisms, this analysis suggests that it will be very difficult to consistently deliver conservation at funding levels in Bonneville’s proposed budget. That level of performance has been accomplished in a few years by a few utilities, but not consistently. It may be possible for Bonneville and the utilities to improve the efficiency of conservation acquisition to the levels required by these proposed budget levels, but experience indicates that it is improbable.

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