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August 9, 2005

MEMORANDUM

TO: Power Four Committee Members

FROM: John Fazio

SUBJECT: Update on the progress of the Resource Adequacy Forum

As part of the Council's ongoing effort to implement the Fifth Power Plan, a Northwest Resource Adequacy Forum has been established. The Forum is currently comprised of a technical committee, which had its first meeting on July 18th, and a steering committee, which will likely convene its first meeting early in September.

At its first meeting, the technical committee established a sub-committee to draft a white paper identifying common definitions related to resource adequacy and to summarize a set of technical issues that the full committee should address. A draft version of the white paper was sent to the sub-committee members on July 29, 2005. A revised outline for that paper is attached. The next meeting of the full technical committee will be held at the Council offices on Monday August 8th.

A draft invitation letter for the steering committee has been written along with a preliminary set of invitees. That draft letter is attached. The hope is to convene the initial meeting of the steering committee in September, probably the week after the Council meeting.

The tentative work plan is to have a final white paper (definitions and list of issues) out to both committees by October. The goal of the Forum is to have a proposed regional resource adequacy metric and standard in place by the end of the first quarter in 2006. This work will be incorporated into WECC resource adequacy efforts, which are tentatively scheduled to be completed by the end of 2006.

Pacific Northwest Resource Adequacy Forum

Definitions and Technical Issues

1. Background

- a. The objective of the Resource Adequacy Forum is to establish a resource adequacy metric(s) and standard(s) for the Pacific Northwest
- b. This effort is needed now because there is some concern that current methods are not sufficient to provide an adequate future supply. Also, WECC has asked for northwest input into its current effort to develop a west-wide standard.

2. Definitions

- a. Parameters: Reliability, Adequacy, Economy, Efficiency
- b. Metrics: LOLP, LOLE, Load/Resource balance, etc.
- c. Standards: Defining an acceptable level for each metric

3. Technical Issues

- a. Data standards and verification methods must be agreed upon
- b. How should rare but extreme events (i.e. weather or economics) be treated?
- c. A consistent method of counting resources must be established (e.g. wind, independent power generation, etc.)
- d. Both a capacity and energy metric and standard are needed
- e. Both summer and winter metrics and standards are needed
- f. Market supplies must somehow be incorporated into the metrics and standards
- g. Appropriate levels of adequacy should be discussed, for example, is the objective to “keep the lights on” (physical risk) or to minimize the likelihood of price spikes (economic risk)?
- h. How can deliverability be incorporated into the standard? Does transmission adequacy necessarily become a part of this process?

4. Initial Proposal for a Regional Standard

- a. Addressing physical risk (L/R balance tied to an LOLP analysis)
- b. Addressing economic risk

5. Methods to Translate a Regional Standard into Utility Specific Standards

Appendix A: Current methods

What is the northwest doing now?

What are other NERC regions doing?

What are individual utilities currently doing?

Appendix B: Other related efforts

NERC/WECC

States

Regional transmission adequacy standard process

SSG-WI (focus on west-wide transmission)

Appendix C: References to related documents

Appendix D: Glossary of terms

Dear _____:

The Northwest Power and Conservation Council (Council) and Bonneville Power Administration (BPA) invite your organization to be represented on the Resource Adequacy Steering Committee. The first meeting of this committee will be _____.

The Council and BPA have initiated a process to develop a consensus-based resource adequacy framework for the Northwest. We are concerned that without an effective resource adequacy framework, the Northwest risks a repeat of the West Coast energy crisis at some time in the future.

In June, utilities, utility associations, regulators, and other stakeholders met to begin the discussion of the technical aspects of this task. At that meeting, the Council staff agreed to prepare a white paper addressing the various metrics that might be used and the data that would be required to develop a regional resource adequacy standard. The technical workgroup will begin review of this paper at a meeting scheduled for August 8.

At the same time, the technical workgroup has raised a number of policy issues that several members believe need to be addressed in order to guide their work. Fundamental to their concerns is whether a utility-specific resource adequacy standard needs to be developed, and if so, how it should be applied. There are other, often related, policy issues. Enclosed with this letter is a list of the key policy questions that have arisen as we delved into the resource adequacy analysis.

In response, the Council and BPA are convening a policy-level steering group sooner rather than later. We have invited each of the six Northwest investor owned utilities, the four State public utility commissions, the Pacific Northwest Generating Cooperatives, the Non-Requirements Utilities, the Public Power Council, and the Northwest Energy Coalition to designate a representative to this steering group. In addition, we have asked the utility associations to recommend three or four additional public utilities to participate. We are asking that those designated be key decision makers for their organization – for utilities, e.g., a vice president, power manager, or chief executive officer.

Both the Council and BPA believe it's important to proceed with the technical and the policy discussions in parallel. As the Steering Committee considers whether and how to apply a resource adequacy standard at the utility level, it will need to have clear and commonly understood technical definitions in order to assess the scope of its decisions. The white paper that the technical workgroup is producing will clarify those definitions. In addition, a definition of how resource adequacy will be assessed at the regional level will be useful in showing how a utility-level standard, should it be applied, might work.

We hope that your organization will be able to designate a member to the Steering Committee. Please contact Linda Palmer, Personal Assistant to Allen Burns, BPA Vice President for Industry Restructuring, at 503-230-3833, llpalmer@bpa.gov by _____ to

confirm your organization's participation and attendance at the _____ meeting. If you have any questions, please call Wally Gibson at the Council, 503-222-5161, or Mary Johannis at BPA, 503-230-3047.

Thanks for your consideration. We look forward to working with you.

Sincerely,
Allen Burns
Tom Karier