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May 30, 2006

## MEMORANDUM

**TO:** Power Committee

**FROM:** Wally Gibson and John Fazio

**SUBJECT:** Discussion of NW Resource Adequacy Implementation Approach

The Resource Adequacy Forum Steering Committee will discuss the implementation approach at its meeting June 9, the Friday before the Council meeting. At that meeting, the committee may further modify the approach described below. An overall implementation time line is also being developed for that meeting. The drafts are being developed by a small group of the Steering Committee and by Council, Bonneville and PNUCC staff. The draft of the implementation approach that will be discussed at that meeting, as well as the draft time line, will be sent to the Power Committee when they are sent to the Steering Committee, early in the week before the Council meeting. The results of that meeting will be presented to the Power Committee.

Overall Approach to Implementation: The overall approach consists of the following:

- Annual reporting of five year loads and resource forecasts to PNUCC, much as the utilities that acquire some or all of their own resources do now,
- Assessment of the state of the region, focusing on the third year out, by PNUCC and the Council,
- Comparison of the results of the assessment to the adequacy standards adopted by the Council, and potentially to a more conservative economic adequacy target as well and
- Highlighting of individual utilities' disproportionate reliance on the spot market if the region as a whole is not meeting the adequacy target.

Bonneville expects to include three elements related to adequacy in its contracts with its customers. These would be acknowledgement of customer resource obligations for adequacy, a load and resource reporting requirement and a notice provision for further Bonneville service.

In actual operations, the outcome of these steps will depend particularly on the water conditions that occur. Utilities that are short, despite these steps, may incur no adverse outcome if water conditions are good, or may incur high market prices and environmental mitigation penalties if water conditions are poor.

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# Northwest Resource Adequacy Implementation – Update



---- DRAFT ----

NWPCC Power Committee

Boise, Idaho

May 30, 2006 Draft

# Summary



- Process:
  - Annual reporting to PNUCC
  - Assessment of the state of the region
  - Comparison of the results of the assessment to adequacy standards, and potentially to a more conservative economic adequacy target
  - Highlighting of individual utilities' status if region as a whole not meeting target
- Expectations about Bonneville contracts
- Outcomes in actual operations

# Implementation Process – Step 1

- General consensus at recent Steering Committee meetings for all four steps
- Focus on reporting and informed management decisions
- Step 1 – Reporting to PNUCC
  - Largely consistent with existing utility reporting
    - Issue: Utilities may currently have different accounting conventions from each other
    - History, regulatory requirements, etc.
    - Details being worked out

# Implementation Process – Steps 2 and 3

- Step 2 – Assessment of regional results
  - Done by PNUCC and by Council
    - Council may use different load and resource forecasts
    - Different perspective and mutual quality control
- Step 3 – Comparison to regional standards
  - Use adequacy standard adopted by Council, and potentially an economic standard, like that in Fifth Power Plan
  - Comparison year is Year 3 of the 5 years in the forecast
  - Utilities can see how they and region are doing
  - No more detail needed if region looks OK

# Implementation Process – Step 4

- Step 4 – Highlight individual utilities if regional problem exists
  - If use economic standard as well as physical standard, only alert region to potential problem (“yellow light”) (THIS PART STILL UNDER DISCUSSION)
  - If region misses physical standard (“red light”)
    - Highlight utilities disproportionately relying on market
    - Metric could be disproportionate percentage of load from spot market
    - Perhaps hold conference to discuss results as well as issue report

# Implementation Process – Other pieces

- Expectations about Bonneville contracts
  - Load and resource reporting requirement
  - Affirmation by customers that they understand adequacy obligation and that will be no Bonneville backup service
  - Three-year notice for taking further Bonneville service
- Outcomes in actual operations
  - Dependent on actual water conditions
  - Utilities that are short in actual operations face high prices and any environmental mitigation responsibilities