Comments of the NW Energy Coalition
on the NW Power and Conservation Council's Nov. 12, 2007 draft
Interim Wholesale Power Price Forecast
Steven Weiss – December 19, 2007

The NW Energy Coalition (NWEC) appreciates the opportunity to comment on the Council's recent draft *Interim Wholesale Power Price Forecast.* Once again we commend the Council staff for its analytical work, and we offer only a few comments. In general we see no problem with the technical work underpinning the paper, but believe its treatment of CO2 and possible CO2 regulation is deficient. This leaves the reader with a flawed view of future markets. We suggest some additions that would add to its relevance, especially to run the study using higher, and more realistic values of carbon adders.

- Our first suggestion is to redo the study using various carbon-adder values up to perhaps $100/ton.

The paper's conclusions may at first seem counter-intuitive: in a period of rising infrastructure costs, RPS mandates (which require the acquisition of higher price renewables), possibly higher fuel costs, and probable CO2 regulation, wholesale prices are expected to fall significantly.

However, as the paper points out this result should not be unexpected. RPS mandates essentially cause utilities to "over-build," causing supply to outstrip demand. This may be especially true when the resource of choice is wind, an intermittent resource with low capacity contribution. With more supply, it is natural that prices would fall.

The problem with this description is that it leaves out future carbon regulation. While the *market price* might fall, the *actual price* seen by a purchasing utility would likely rise do to carbon regulation. The reason for this is that the market might be awash in surplus fossil fueled power—mainly coal-fired generation—priced very low, but the actual price a utility would incur from buying the dirty power would be much higher due to its carbon content. Without accounting for the carbon content of the power, the paper's explanation leads to a misleading conclusion.

The utility industry is entering into the uncharted waters of Carbon regulation which adds complications to what used to be more of a simple supply and demand question. NWEC believes that the Council should dig deeper into the *nature* of the wholesale market under various carbon-constrained scenarios, especially cap-and-trade mechanisms. Some questions and suggestions:

1. Describe the nature of the market—that is, the carbon content and make-up of different sources, and its prices. Would these attributes tend to change under various levels of carbon restriction?

2. Would utilities and IPPs change their behavior in the face of this new market? For example, would those with cleaner resources move toward selling under

dedicated contracts rather than sell into the generic (unspecified) wholesale market? How would that behavior affect the market's price and carbon content? Would utilities' plans change vis-à-vis the market? What would be the price utilities would actually incur when purchasing from this market? This is a truer measure of price.

3. How would various Emissions Performance Standards, now in place in WA and CA, and possibly in other states or nationally, affect the market?

4. It would be enlightening to examine a bifurcated (or trifurcated?) market where the CO_2 content of power was priced consistent with various types of regulation (cap-and-trade, CO_2 tax, etc.) and intensities of that regulation. Is this a likely outcome? What would be the prices in such a market?

Certainly this is not an exclusive list of questions that could be listed under the heading, "nature of the market," and we hope the Council and its staff will investigate the issue further. It is not clear to us how the market will behave in the future, but we are fairly certain that the simple supply and demand model used in the current paper will not describe future market(s) adequately as carbon regulation goes forward.

Thank you for this opportunity to comment. If there are any questions, please contact:

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