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Sixth Northwest Conservation and Electric Power Plan

Supplemental Statement of Basis and Purpose and Response to Comments

April 2014

The Council approved the Sixth Northwest Conservation and Electric Power Plan in February 2010. The Council then approved a Statement of Basis and Purpose and Response to Comments to accompany the Sixth Power Plan in April 2010. <http://www.nwcouncil.org/energy/powerplan/6/plan/>. This is a supplement to that statement.

Section 4(e)(3)(C) of the Northwest Power Act of 1980 requires the Council to include in each regional conservation and electric power plan a “methodology for determining quantifiable environmental costs and benefits.” When the Council released the draft Sixth Power Plan for public review and comment in September 2009, the Council inadvertently neglected to include a separate statement describing the environmental cost and benefit methodology the Council used in developing the resource strategy for the draft Sixth Power Plan.

Public comments on the draft alerted the Council to the absence of the statement describing the methodology. Even absent a specific description of the methodology, however, the Council received significant public comment about how the Council quantified environmental costs and benefits for the resource cost estimates in the draft, especially whether and how to quantify the environmental costs of carbon emissions in absence of a carbon emissions regulatory regime, one of the central issues in the Sixth Power Plan.

Upon review of the comments and further review of the draft power plan, the Council concluded that it was clear from the draft and the accompanying analyses what methodology the Council was using for determining quantifiable environmental costs

and benefits of the new resources. For that reason the Council decided at that time not to conduct a further public comment period on a proposed statement of the methodology before including the methodology in the final Sixth Power Plan. See Sixth Power Plan, Statement of Basis and Purpose for the Sixth Power Plan and Response to Comments on the Draft Sixth Power Plan, at 3-12, 22-25, 30. In the final power plan the Council included the statement of the methodology the Council used in developing both the draft and final Sixth Power Plan, as Appendix P, "Methodology for Determining Quantifiable Environmental Costs and Benefits."

A panel of the Ninth Circuit later ruled that the Council's failure to include the statement of the methodology in the draft plan for public comment was a procedural error. The Court remanded "the Plan to the Council for the limited purpose of adopting a methodology through the appropriate notice-and-comment process." *Northwest Resource Information Center, Inc. v. Northwest Power and Conservation Council*, No. 10-72104, at 20-23, 28 (9th Cir, Sept 18, 2013).

Pursuant to the Court's remand order, in January 2014 the Council released for a 45-day public review and comment period the proposed methodology for determining quantifiable environmental costs and benefits as described in Appendix P to the Sixth Power Plan." The Council explained in the notice why it was releasing this element of the Sixth Power Plan for public review and comment. The notice made potential commenters aware that at the conclusion of the comment period, the Council would consider any comments received on the Appendix P Methodology in deciding whether to revise the methodology or in any other way amend the Sixth Power Plan. <http://www.nwcouncil.org/energy/powerplan/6/appendix-p-comment/>. The Council received four comments:

**Northwest Resource Information Center, Inc.
Public Generating Pool
Public Power Council
James Adcock**

The Council then reviewed the comments received and the statement of the methodology, in the context of the rest of the Sixth Power Plan and its administrative record, including the original comments on how the Council quantified environmental costs and benefits in the draft power plan. Based on its review, the Council decided at its April 2014 meeting to:

- Re-approve Appendix P as the statement of the methodology for determining quantifiable environmental costs and benefits for the Sixth Power Plan.
- After further review and consideration of the methodology and comments, make no changes to the Sixth Power Plan's resource strategy adopted in February 2010 or any other element of the power plan; and
- Approve this statement explaining the reasons for the above actions and responding to the comments, as a supplement to the Sixth Power Plan's

Statement of Basis and Purpose/Response to Comments approved by the Council in April 2010.

The four comments received do not alter the Council's conclusion that the methodology developed to determine quantifiable environmental costs and benefits for the Sixth Power Plan was reasonable, clear, and appropriate on the record developed by the Council for the draft and final power plans. The Council recognizes that there are differing views as to how best to quantify the direct environmental costs and benefits of new resources when conducting the resource cost comparisons and selecting the least-cost new conservation and generating resource strategy for the power plan. The Council used a method supported in the record and supported by the Council's technical and policy expertise. The Council used a methodology it has consistently used since its very first power plan, although described at a different level of detail over the years.

Within this new set of comments, the two utility associations commented that the methodology the Council described in Appendix P as part of the final Sixth Power Plan accurately represented the methodology for determining quantifiable environmental costs and benefits that the Council applied in developing the draft and final Sixth Power Plans, and that this methodology was appropriate and reasonable in the context of the statute, the record before the Council, the technical work of the Council, and the state of the information as of 2008-10. The utility associations have qualms about whether it is truly possible to quantify resource costs outside of the regulatory framework -- an issue for further consideration in the Seventh Power Plan -- but even so they noted that the approach the Council did develop and apply in the Sixth Power Plan had a more than rational basis in the statute and record.

Now as then, for most of the commenters the key issue in this regard has been how to deal with the costs of carbon emissions. The challenge has been whether it is possible to quantify (and if so, how to quantify) the direct environmental costs of carbon emissions in the absence of an established regulatory framework, compliance with which would help to define what are the costs of dealing with carbon emissions in resource development and operations. Within that uncertainty, and within a range of approaches by others to deal with that uncertainty, the Council modeled a range of possible "environmental costs" for the carbon emissions from fossil-fuel resources. The Council also developed several new resource scenarios to explore the likely effects of different levels of carbon pricing on resource costs and choices. This approach is noted in the Appendix P statement of the methodology and discussed in detail elsewhere in the plan. The Council approach to quantifying the carbon emissions was a reasoned decision on this record and fits well within the requirements of the statute.

Mr. Adcock commented that the Council errs in this methodology primarily by not using the "social cost" of carbon approach (and resulting costs) under development by the Obama Administration under the lead of the U.S. Environmental Protection Agency. That specific approach was not available to the Council at the time of the Sixth Power Plan. What was available to the Council -- a range of different ways agencies and economists and others were considering how to understand the costs of the carbon

emissions -- resulted in a methodology and then a price range and median modeled price for carbon emissions for the Sixth Power Plan that compares reasonably with what results from this one later analytical approach now pursued by the EPA. The Council appreciates the comments of Mr. Adcock, as his views are sure to be part of the consideration of what should be the methodology for dealing with carbon emission costs in the Seventh Power Plan.

The comments from the Northwest Resource Information Center, Inc (NRIC) misunderstand what the statute calls for and allows in a power plan developed by the Council under the Northwest Power Act. Under the Act, the power plan is a scheme for implementing the most cost-effective new conservation and generating resources, so that Bonneville can continue to meet its contractual obligations for electrical power, even in the face of increasing demand, and also implement reliably the measures in the Council's fish and wildlife program. (Fish and wildlife measures determined *not* in power plan but instead approved by the Council in a separate and preceding process under the Northwest Power Act that results in the Columbia River Basin Fish and Wildlife Program). To develop this new resource scheme for the power plan, the Council has to determine what the "incremental system costs" are of the various conservation and generating resource options, so they can be reviewed on a comparable basis to determine which are most cost-effective. The methodology developed by the Council is the way in which the Council figures out how to quantify one element of the new resource costs estimates -- the environmental costs and benefits directly attributable to the new resources.

The statute does not allow the Council to determine, in the power plan, what should be the appropriate measures for fish and wildlife. The statute also does not allow the Council to include in the power plan a recommendation to remove or reduce the output of any existing resource, be it a hydropower dam or a coal plant or a wind turbine in order to benefit fish and wildlife or for any other reason. To the contrary, one factor the Council is required to consider in developing the new resource scheme is its compatibility with the existing system. Given the requirements of the Act, the methodology the Act requires the Council to develop is one that can best assign a dollar figure to the direct environmental costs and benefits of new resource choices. The statute is not asking, and does not allow, the Council to develop a methodology to quantify the environmental costs and benefits of *existing* system resources, nor allow the Council to decide in the power plan resource strategy whether to remove altogether or reduce the use of existing resources in the region. The Council and the power plan participants recognize that *others* may eventually make decisions to remove a resource, and if so, that fact will be taken into account as the Council recommends the least-cost new resource scheme. And so, for example, the Council in the Sixth Power Plan analyzed what the new resource strategy for the region would look like if coal plants are retired or if dams on the lower Snake River are removed. That is not the same as the Council developing the methodology to assess the costs and benefits of existing system resources and then making a decision about whether those existing resources should continue operating or be retired.

After reviewing the comments, and the record as a whole, the Council decided to re-approve Appendix P to the Sixth Power Plan, as the statement of the Council's methodology for the Sixth Power Plan for determining quantifiable environmental costs and benefits of new resources options. The Council sees no reason to alter any element of the Sixth Power Plan on the basis of the considerations here.

The Court also remanded the Sixth Power Plan to the Council "for the limited purposes of ... (2) reconsidering the inclusion in the Plan of the BPA's estimate of the 2009 Program's cost to hydrosystem operations." The Council will take action on that remand order at a later date.