

2008

[EVOLVING TO MEET CHANGE]

PNUCC Annual Report



Chairman's Message

PNUCC excels at helping its members prepare for the changes and challenges coming down the road that affect our industry. The year 2008 brought a host of new and complex issues to our doorstep, and PNUCC responded by increasing its communications and analytical efforts to provide members fast-breaking, useful information on both power and fish topics.

Traditionally, PNUCC has concentrated on power concerns such as demand, adequacy, and resource acquisition. Then when the need arose some years ago, we augmented that work with a hefty side order of fish and wildlife policy analysis. Now PNUCC has adjusted its focus again to help the industry scrutinize the issue of global climate change, which has begun hovering over our landscape.

Renewable portfolio standards and integrated resource plans are changing the way we make decisions on resource acquisitions. Utilities are working hard to figure out how to position themselves and manage risk in light of all these interrelated, complicated issues.

We think it's important our customers understand what's going on and how their future rates and choices could be affected. That's why PNUCC launched a new communications initiative this year to gauge current levels of public information on energy topics and find smart ways to explain these new issues.

On the technical side, PNUCC hired a consultant to look into the future capacity needs of the Northwest. We are also developing more information on the hydro system's ability to firm wind energy and on what new power resource developers need to bring to the regional table.

We can already see that next year won't lack for challenges—for example, we expect the Western Climate Initiative to present its cap-and-trade proposals to several state legislatures. PNUCC is preparing for that discussion and to analyze the implications for our industry. On the fish and wildlife front, we've made good progress this year in increasing accountability, especially in our work with the Northwest Power and Conservation Council, and that will continue. And early in 2009, we'll start putting the results of the PNUCC-developed communications program to work to inform the public and policymakers about current environmental and electricity issues.

Our forward progress comes from the strength of PNUCC as a forum and a focal point for regional collaboration. PNUCC meetings give us the chance to learn from each other and appreciate what unites us as an industry. None of this would happen if PNUCC's staff didn't work so hard, week in and week out.

As chairman of the board this year, I want to thank the staff for their unflagging commitment, energy and good spirits. I also want to express my appreciation to the members of the board for their dedication and willingness to roll up their sleeves and work together to help our industry meet the demands of today, as well as those coming at us tomorrow.

Sincerely,
Jim Sanders, Chairman of the Board, Benton PUD

Director's Message

PNUCC is favored with a remarkable set of leaders. When I look around the room at any given board meeting, I see decades of knowledge, wisdom, and insight just waiting to be tapped. For every topic that lands on our agenda, we have someone with the right combination of policy sense and technical acumen to keep us informed and on track.

This year, when we resolved to energize our communications, we had the leadership and expertise at hand to develop a plan. Likewise, we have experts and members who can take command of a discussion whether it's the impact of wind power on our system, unusual price fluctuations in the power market, or how proposals for a cap-and-trade system for carbon emissions could affect the Northwest.

We are also served well by another mix on our board—location, size, and type of utility. PNUCC has the benefit of perspectives that hail from both urban and rural environments. We have large utilities that are investing more than ever in resources, along with small utilities working to get the best BPA contract possible to serve their customers. This breadth of knowledge, talent, and geography is crucial as we ratchet up our game in the area of energy policy development.

In recent years, our industry has seen the downside of policies shaped without adequate input from the front lines. With the communications effort initiated in 2008, we aim to remedy that and inform decision makers about real-world consequences before they act. We want to connect the dots, for example, between a decision to promote wind generation, load on the transmission system, and the impact on capacity reserves.

We know at PNUCC that one size does not fit all when it comes to the region's utilities. The consequences of policies vary dramatically from one utility and one locale to another. Our goal is to let policy makers know, if you make that choice, this is what things will look like in 10 years. There is no organization better suited to communicate such information than PNUCC.

We have leaders for all seasons in our board room. PNUCC looks forward to bringing that depth of knowledge and wealth of insight to bear as events reshape our industry and our world in 2009.

Dick Adams
Executive Director

2008

[EVOLVING TO MEET CHANGE]

The buzzword of the moment is change, and the electricity industry is in the thick of it. We have been called on to adapt to a reality that includes carbon limits, resource portfolio standards, capacity deficits, and wind integration studies, to name a few. This is no time to be stuck in old patterns of behavior. We are learning new tricks to keep our commitment to reliable electricity at a reasonable cost in the Northwest.

Among the changes at PNUCC, we have ramped up communications this year to make sure our members stay up to date on issues and their ramifications for the industry. And we've taken the lead to develop a regional program to explain complex issues to policy makers and the public.

Here's a look at PNUCC's 2008 accomplishments and a preview of our agenda for 2009.

A FOCUS ON THE POWER PLAN

We wasted no time getting started early in 2008 on a scope of work to track development of the Northwest Power and Conservation Council's Sixth Regional Power Plan. The Council staff begins research and modeling studies over a year in advance of drafting a plan. We have been following the Council's work as it calibrates models, examines resources, researches energy efficiency, analyzes cost-effectiveness, and explores emerging issues, like integrating new renewable resources and addressing carbon constraints.

The Power Plan is important to PNUCC for a number of reasons. It tells policy makers and the public how the electric power industry in the Northwest is doing and what lies ahead. It gives an independent view of system adequacy, available conservation, and potential new resources. If BPA needs to acquire major resources, the Council's plan is the basis for reviewing acquisition proposals.

In addition, the Sixth Power Plan provides the yardstick for measuring whether Washington's utilities are meeting a legal mandate for conservation and renewables. PNUCC recognizes the significance of studies and assumptions that underpin the Power Plan, and we have had our eye on them all year.

“... the Sixth Power Plan provides the yardstick for measuring whether Washington's utilities are meeting a legal mandate for conservation and renewables.”

Our goals for the Sixth Power Plan include assuring it reflects a shared view between PNUCC and the Council about the state of the current Northwest power system. We are also seeking a plan that accurately describes the future in terms of maintaining an adequate and affordable power supply. And PNUCC wants to make certain the Council—along with customers, elected officials, and policy makers—understands the complex issues and challenges ahead.

PNUCC members are participating in the Council’s technical advisory groups, and our staff regularly attends Power Committee meetings to add our knowledge and point of view to the discussions. And we have invited Council members to board meetings and made specific suggestions about analyses that should be conducted for the Sixth Power Plan, like potential impacts from increased use of electric cars.

We have also stepped up our communications with a monthly update on issues relative to the Power Plan. Our *What’s Happening With the Sixth Power Plan* is another service to keep our members current with a quick and easy read.

ALERT ON ADEQUACY

PNUCC is an active participant in the Northwest’s Regional Adequacy Forum, where we are gauging the efficacy of the standard the Council adopted last year as the region’s “smoke alarm” on adequacy. The Council annually assesses the Northwest power system against the standard and reports its findings.

PNUCC has pushed the Council to be clear about what the adequacy assessment means: a minimum threshold for physical adequacy. We are concerned the results could be misconstrued as an indicator of whether the region needs to acquire power resources. The Council has responded positively and made sure descriptions of the adequacy standard emphasize what it does and does not mean.

In the Council’s 2008 adequacy assessment, surplus capacity has shrunk by more than half from 2007. We intend to help explore the reason for this dramatic swing, including an investigation of peak load forecasts. We also want to help the region understand whether the outcome signals a need to revise the way the assessment, an important building block for the Sixth Power Plan, is conducted.

NRF SPELLS RESOURCE ACQUISITION

The bottom line in the 2008 Northwest Regional Forecast is resource acquisition. The region is 1,200 average megawatts deficit at the beginning of the study, and without new resources, the deficit continues to grow. Overall, growth is about 1.2 percent per year for the next decade, but as high as 3 percent for some utilities.

The NRF shows that utilities are actively acquiring resources. There are plans on the drawing board for 2,800 MWA of new resources, including 27 wind projects.

Throughout the year, utilities have brought their Integrated Resource Plans and other acquisition news to the PNUCC board room to share with their colleagues. We have heard about everything from geothermal projects and combined-cycle combustion turbines to small hydro acquisitions and strides in energy efficiency. Conservation and efficiency have gained an increasingly high profile as utilities plan to meet growing loads and satisfy state mandates. PNUCC members are actively involved in the Northwest Energy Efficiency Task Force, as well as other efforts, many within their own utilities, to promote efficiency goals and accelerate the pace of implementation.

PREPARING FOR MORE NATURAL GAS

We have also kept in touch with the natural gas industry, inviting the executive director of the Northwest Gas Association to attend a board meeting and provide perspective on demand, supply, and service capacity in the region. While the Northwest relies less heavily on natural gas than the rest of the country, the demand is growing and gas supply here is being stressed.

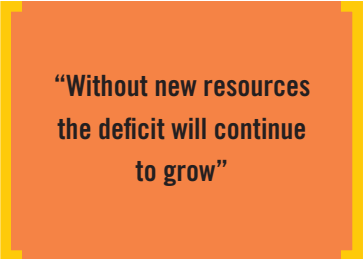
Natural gas-fired generation is part of the picture for many PNUCC members in planning their future power supply. We teamed up with the gas industry this year to conduct a joint analysis of the need for natural gas to fuel electricity generation in the region. It will help the gas industry plan for new infrastructure and supply.

PNUCC members are well aware of the controversy that has erupted over bringing a liquefied natural gas terminal to the Northwest. Early this year, we sent a letter to Oregon Governor Ted Kulongoski asking that he continue to support investigations into whether such facilities have value for the region's energy future.

CRAFTING COMMUNICATIONS MESSAGES

PNUCC launched an initiative this year to help our members communicate better with customers about what is affecting utility choices and why energy costs are rising. We hired a polling firm to provide baseline information on public perceptions about issues facing our industry.

We are using the research results to develop messages about the region's need for resources, renewable energy, climate change policies, and the benefits of energy efficiency. PNUCC's Communication Work Group is steering this effort and will help tailor messages to fit different geographic areas. Other audiences we are targeting include policymakers, such as the Council, and state and federal legislators.



**“Without new resources
the deficit will continue
to grow”**

A NEW ATTITUDE IN FISH AND WILDLIFE PLANNING

PNUCC spent a great deal of time this year working with the Council as it revised its Columbia Basin Fish and Wildlife Program. We worked with other trade groups, including Northwest RiverPartners, to prepare and submit extensive amendments to the program. And we took time to offer our comments on the thousands of pages of amendments recommended by others.

“PNUCC also put energy this year into building relationships with other groups interested in the outcome of the Council’s program.”

When the Council released the draft of its new program in August, we were glad to see our efforts had paid off. For example, the draft incorporated one of our key recommendations: identifying “the nexus” between program provisions and the hydro system. We think the program should stick to the Northwest Power Act and show a tightly drawn connection to hydro system impacts. It should be clear that not all fish and wildlife declines are the responsibility of electricity customers.

Another thing we’ve emphasized is that the new program should address guiding principles and avoid prescriptive details. The Council took our advice in the draft and elected not to give in-depth treatment to such issues as toxics in the environment, climate change, and invasive species. In our opinion, that’s good—we think these issues are largely beyond the scope of the Council’s program.

We recommended removing from the program specific numerical goals for adult salmon returns above Bonneville Dam and were pleased to see the Council agreed. And we applauded the fact that in discussions about mainstem measures, the Council opted to exclude detailed operations.

PNUCC also put energy this year into building relationships with other groups interested in the outcome of the Council’s program. We met with Columbia Basin Fish and Wildlife Authority representatives to hear more about their work and swap viewpoints.

NOTHING FISHY ABOUT MORE COMMUNICATION

Because there was so much fish and wildlife news this year, we inaugurated a monthly service to give our members a “heads up” on breaking issues. We collapsed hours of discussions involving BPA, the Council, and others into a one-pager that sums up the latest news and previews what’s ahead in the coming month.

These “Heads Up on Fish and Wildlife” supplemented another popular PNUCC communications service: our in-depth, but snappy Council reports. Every month these reports use a journalistic-style to inform readers about key discussions and votes at Council meetings.

LEARNING TO MEASURE SUCCESS

The region has moved into discussions of developing “high-level indicators” to measure the success of the Council’s fish and wildlife program. It’s about time someone got serious on this issue.

“High level indicators offer the region an opportunity to see what we are getting for our \$10 billion investment”

Dick Adams

The high-level indicators fit into PNUCC’s longstanding conviction that the program has seemed to be more about allocating project dollars than what has actually been accomplished for fish in the last two decades—a period in which nearly \$10 billion has been spent on mitigation and restoration.

We hired BioAnalysts, Inc. to look at indicators proposed by the Council and advise us on how they can increase regional understanding of fish and wildlife recovery actions, as well as program spending. We will use this information to work with the Council to make sure final in-

dicators are scientifically sound and useful. This type of measure holds the promise of changing the dynamics of the discussion about fish recovery, including setting priorities for program spending.

2009 WILL TEST OUR STAMINA

Concerns over climate change will continue to have a heavy influence on the power industry. We expect to see its footprint on the Council’s Fish and Wildlife Program and the Sixth Power Plan, as well as in state, regional, and national initiatives in 2009. PNUCC has reconvened its Climate Change Task Force to keep us mindful of our principles in this area and to stay on top of developments, including efforts by our industry colleagues in the climate change arena.

In 2009, we expect transmission issues will be front and center for PNUCC members, along with renewable portfolio standards and resource acquisition. The impact of adding large quantities of wind power will continue to remind us about the intricacies of the Northwest power system, and the integration of resources, like solar and geothermal, will push us further on the learning curve as we manage an evolving power system.

Once the Council's fish and wildlife program becomes final, PNUCC will stay tuned to the implementation and keep up the dialogue we started with the Council this year.

We'll monitor how the next project selection process shapes up, stay alert to troublesome expensive items like wildlife mitigation funding, and press for scientific review of all projects, including those resulting from the "salmon accords" BPA signed with tribes and states.

In the face of proposals to increase fish and wildlife spending next year, we'll press for wise use of ratepayer money. We'll work with Northwest RiverPartners to monitor the litigation surrounding the Biological Opinion and keep our members briefed on what it portends for the hydro system. We'll work against river operations with dubious salmon benefits and big price tags and continue to advocate for operations that are cost-effective and scientifically sound.

Our communications initiative will be in full swing next year. We want electricity customers to have the tools and knowledge to use energy wisely in their homes and businesses, and we want policymakers to understand better how new technologies and policies will affect our industry.

THE TIES THAT BIND

Anyone who observes the PNUCC board room can see we have it down with behaviors essential to maintaining healthy, working relationships. There's trust, good will, information sharing, mutual respect, and when necessary, agreeing agreeably to disagree.

Our board meetings rev up our spirits and remind us we are all in this together for the good of the Northwest economy and environment. Every month we look at events and information and filter their significance through the years of experience and expertise represented around the board room table. And last, but never least, we look to our PNUCC forum to stimulate the power of good ideas that will help us work creatively through the challenges ahead.

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About [PNUCC]

MEMBERS

Alcoa Inc.
City of Ashland
Avista Corp.
Benton PUD
Blachly-Lane Electric Co-op.
Bonners Ferry Electric Dept.
Canby Utility
Central Electric Co-op.
Chelan County PUD
City of Cheney
Clark Public Utilities
Clatskanie PUD
Clearwater Power Company
Consumers Power Inc.
Coos-Curry Electric Co-op.
Cowlitz County PUD
Douglas County PUD
Douglas Electric Co-op.
Emerald People's
Utility District

Eugene Water &
Electric Board
Fall River Rural
Electric Co-op.
Flathead Electric Co-op.
Forest Grove Light & Power
Franklin County PUD
Grant County PUD
Idaho Falls Power
Idaho Power
Kittitas County PUD
Lane Electric Co-op.
Lewis County PUD
Lost River Electric Co-op.
McMinnville Water & Light
Northern Lights Inc.
NorthWestern Energy
Okanogan Co. Elec. Co-op.
Pacific Power

Pend Oreille County PUD
PNGC Power
Portland General Electric
Puget Sound Energy
Raft River Rural
Electric Co-op.
Salmon River Electric Co-op.
Seattle City Light
Snohomish County PUD
City of Sumas
Tacoma Public Utilities
Tillamook PUD
Umatilla Electric Co-op.
United Electric Co-op.
Vera Water & Power
Wells Rural Electric Co.
West Oregon Electric Co-op.
Whatcom County PUD

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John Hines,
NorthWestern Energy

Jim Miller, Idaho Power

David Mills,
Puget Sound Energy

Phil Obenchain,
Pacific Power

Terri Peschka,
Portland General Electric

John Prescott, PNGC Power

Steve Klein,
Snohomish County PUD

Ken Sugden, Flathead
Electric Cooperative

PNUCC has played a pivotal role in the region's electric utility industry for more than 60 years. As a voluntary, non-profit organization, PNUCC is a forum for bringing the power of good ideas to bear on a range of issues that affect electricity providers and large industrial users in the Northwest. Through PNUCC members have the opportunity to listen and learn from each other and help shape evolving regional policies.

PNUCC MISSION

Bringing the power of good ideas together to assist PNUCC members in fulfilling their company missions in this ever changing electric industry.

PNUCC's mission is accomplished by providing:

- The searchlight for changes that will have a significant impact on how our industry does business in the future
- A catalyst for examining issues that impact a significant portion of its membership
- A forum for dialogue on policy issues of regional importance
- The hub for technical analysis and data on vital Northwest power industry issues

2008 BUDGET

Staff Expenses	421,000
Overhead Expenses	135,000
Consultants	115,000
Total Budget	\$671,000

PNUCC STAFF

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