



SUCCESS IS MEASURED



**PNCC**

ANNUAL REPORT 2006

## CHAIRMAN'S MESSAGE

There's a lot of change in the wind for the Northwest utility industry, and all of us are working to understand it and find ways to adapt to new challenges and circumstances. With hundreds of megawatts of wind power on the region's drawing board, policies proposed to transform longstanding roles and relationships, new pressures to mandate renewable energy development, and a salmon recovery arena full of judicial question marks—it's lucky that we have PNUCC to help us share information and sort out the opportunities from the pitfalls.

One of our organization's greatest strengths is its dedication to making sure PNUCC members get the latest information, whether it's the early-bird water supply forecast, latebreaking news from Washington D.C., or pending fish and wildlife decisions that may affect our bottom lines. PNUCC meetings give us the chance to hear from our colleagues about what's going on in their backyards and exchange opinions on big-picture issues.

In 2006, we grappled with a lot of important issues, such as new proposals to establish renewable portfolio standards in Washington and Oregon. PNUCC members formed a work group to explore the implications to utilities and delve into questions like what constitutes a renewable resource and whether such a standard should be tied to total load or load growth. We intend to share the results of our studies with policymakers and the public.

Wind energy has emerged as the renewable resource of choice in our region, but since most of these projects will be sited far from load centers, there are many questions to be answered. PNUCC members have made it their business to seek adequate analysis of how wind energy can be integrated into the Northwest system and what the costs would be.

PNUCC staff worked hard to provide the industry's viewpoint in the development of regional adequacy standards this year. Progress has been made, but more work remains. That can also be said about the region's effort to decide on BPA's long-term future power supply role. There have been a lot of discussions about Regional Dialogue issues, and we are making progress. But as of yet, we have been unable to reach a consensus, and I'm disappointed about that.

On the fish and wildlife side of the ledger, "the 900-pound gorilla" still haunting us is the new Biological Opinion and related decisions that may be forthcoming from Judge Redden. No matter how that turns out, we can be proud of the work PNUCC has done this year, in concert with Northwest RiverPartners, on moving the region toward science-based, cost-effective strategies for salmon recovery.

In 2007, PNUCC will continue to push for accountability in fish and wildlife spending and policies. And I hope that the region can reach closure on the issue of BPA's long-term role. It's time to come to grips with this important decision that has so many ramifications for the people of the Northwest.

I want to thank our excellent staff for their expertise and enthusiasm month in and month out, helping us understand the landscape and how it is changing. I also want to salute PNUCC members for their willingness to get involved, to share information, and to debate most civilly the issues of the day.

Jack Speer, Alcoa Inc.

## DIRECTOR'S MESSAGE

I've heard the murmurs growing louder for a couple of years. In 2006, I could actually make out the words—the message was clear. We can talk restructuring and competition, but the bottom line is to keep the lights on. We can debate the drawbacks of standard market design, but at heart, we're about powering the region. We can play the spot market, but in the end, we need to heat homes.

The conversation in our industry has changed. Simply put, we are back to basics.

Somewhere along the way into the new, uncharted territory of vertical disintegration, the path began to bend. We circled back around, and today, we are contemplating core elements of what utilities do to meet customer load: gaining energy efficiencies, building resources, integrating them into the grid, and assuring resource adequacy and system reliability.

Perhaps the clearest testimony times have changed is the suggestion I've heard that we rev up PNUCC's System Planning Committee. There is obviously a desire to recapture the synergy that was lost when we all thought we'd go our independent ways. The task forces and working groups that have sprung up in recent months reinforce the fact we are on a common mission, and we are all in this together.

Our industry is accustomed to uncertainties. One of the largest and most recent is how the Northwest will respond to global climate change. Nationally, the electric utility industry is a large consumer of fossil fuels. Our hydroelectric system sets us apart from other regions, but still, the pressure is growing for states in the West to adopt renewable portfolio standards.

To many ears, an RPS means harnessing energy from the wind that blows down the Columbia River Gorge or the waves that lap the Pacific Coast. To a utility, building renewable energy resources could mean diversifying its resource mix or hedging against the uncertainties of the price of fossil fuels. Northwest utilities have already added wind generation and other renewables to their portfolios. They have built these resources because they have done the engineering and economic analysis, and it works for them. Some in our ranks are skeptical of an arbitrary "one-size-fits-all" standard. In the coming year, we will explore this topic thoroughly.

Our ears are open. The electricity consumers of this region can count on us, as they always have, to take the problem statements posed and find solutions. That is what we do. And we do it best in a spirit of camaraderie and collaboration. That is what PNUCC adds to the portfolio.

Dick Adams, Executive Director

## THINKING GREEN AS WE PLAN FOR TOMORROW

High oil prices and concerns about climate change captured the headlines in 2006 and heightened public interest in homegrown resources of the non-fossil fuel variety. Wind energy blew in as the next big thing, and more utilities in the Northwest saw its attraction as a complement to hydropower, which has always renewed and sustained our regional energy portfolio.

PNUCC spent much of the year embracing the promise of renewable energy and at the same time, trying to balance the rush of new enthusiasm with utility-style vigilance about reliability and costs. We talked a lot more about tools for integrated resource planning, conservation and energy efficiency, and how to take advantage of renewable energy opportunities.

But while the power workload grew, PNUCC never let up on its fight for cost-effective, on-the-ground salmon recovery measures.

## ROMANCING RENEWABLES

With almost 1,000 MW of wind energy already online and many more sites under development, PNUCC recognized the importance of looking carefully at the impact of such rapid deployment of renewables. This was particularly urgent since renewable portfolio standards caught the public's attention in the Northwest this year. The standards, which require utilities to have a set percentage of renewable resources as part of their energy mix, attracted a considerable following. In Washington, an initiative to mandate a renewable portfolio standard made it onto the ballot, and interest to do something similar grew in Oregon. Montana adopted such a standard in 2005.

PNUCC members saw the need to analyze how these proposals would affect their responsibilities and relationships and to provide the public and decisionmakers with facts and figures to inform the debate. PNUCC created a Renewable Portfolio Standards Task Force to explore issues such as the integration of intermittent resources into the existing system, conflicts with other regulatory requirements, impacts on BPA and salmon recovery, and the rate effects of requiring utilities to purchase renewable resources regardless of need.

PNUCC wants to see more renewable resources in the Northwest. But policies to achieve that goal need to get it right in order to protect system reliability and the ratepayers. We are putting together a report that will include a set of recommendations to guide future renewables development.

## DON'T BLOW IT WITH WIND

PNUCC members support wind development and would like it to succeed as a good partner to resources the region has traditionally relied upon. But rather than blind enthusiasm, we prefer an approach that makes sure we know how the power and transmission system can best accommodate hundreds of new wind megawatts.

So we were happy to jump on board to help BPA and the Northwest Power and Conservation Council look at costs and issues associated with wind integration, such as forecasting and volatility. PNUCC members are serving on the Northwest Wind Integration Action Plan technical and steering committees, which will allow us to bring the vital utility viewpoint to bear on this new era in resource development.

## PNUCC DATA DRIVES RESOURCE ADEQUACY QUEST

This year, the Northwest Power and Conservation Council, with BPA, launched the Resource Adequacy Forum to develop new standards for the power system, and PNUCC actively participated. In January, we cautioned the Council about relying too heavily on the output from independent power producers when assessing resource adequacy. We found out how right we were in July, when an unusually hot spell drove up electricity demand in the Northwest, and the region's independent power producers had already sold significant amounts of power to California.

The Council adopted a resource adequacy energy standard in May. Now we have been asked to provide data from our Northwest Regional Forecast and to help the region arrive at a capacity standard.

The NRF is PNUCC's unique database that over the years has provided the region with a snapshot of loads and resources and how they match up. In 2006, the NRF will reflect new priorities, such as wind and other renewables.

The NRF has a wealth of data we'll mine to help the region evaluate resource adequacy. At the same time, we'll keep an eye out to make sure the standards developed are workable for utilities and respect their prerogatives to plan for and acquire resources.

## HELPING BPA TO EVOLVE

PNUCC members spent a great deal of time this year participating in the Regional Dialogue, which aims to redefine BPA's future power supply role and to allocate federal power in long-term contracts. This summer, BPA promulgated a draft policy, which PNUCC members are reviewing. While several key issues, such as the residential exchange, remain unresolved, we continue to strive for consensus so utilities can make decisions on post-2011 contracts and resources sooner rather than later.

As part of the BPA-Customer Collaborative, we met regularly in 2006 with Administrator Steve Wright and his top staff to offer the industry's perspective on BPA activities, such as the Power Function Review and other efforts to improve efficiency and reduce costs.

## TRACKING ISSUES ACROSS THE LANDSCAPE

This year, PNUCC tracked breaking news on national and regional energy policy and lined up briefing sessions to educate members and discuss issues. We attempted to demystify the details of FERC's proposed open access transmission tariff amendments and worked with BPA to provide comments on how the changes would affect the Northwest. Representatives of ColumbiaGrid came to our forum to report on their goals and progress. We also discussed the President's budget, new requirements stemming from the 2005 Energy Policy Act, and pending legislation in the states.

## FOCUSING ALL HS ON SUSTAINABLE RUNS

Turning to fish, if the adult returns of the past few years are an indication, we are making progress on the road to salmon recovery. PNUCC views the measures under way in all of the Hs—hydro, habitat, hatchery, and harvest—as crucial to achieving recovery under the Endangered Species Act. Sustainable runs will require a sustained all-H effort.

We are ensuring that the Columbia River system is maintained as a working and productive asset to the region. We provide resources to Northwest RiverPartners—an organization that shares our goals. Our conviction that changes to the hydrosystem's configuration and operations must be based on science and provide cost-effective biological benefits for salmon is of highest priority.

## DOLING OUT DOLLARS, REQUIRING RESULTS

The ESA is only part of the region's mission with regard to fish and wildlife. PNUCC has a serious interest in how ratepayers' dollars are invested to carry out the Northwest Power and Conservation Council's Fish and Wildlife Program. We want cost-effectiveness, and we want results.

The Council's program maps the course in carrying out Congress' mandate to "protect, mitigate and enhance" fish and wildlife of the Columbia River Basin. PNUCC dedicated many hours this year to scrutinizing the projects funded by BPA customers through the Council's program. After following the painstaking process of how the Council decides on projects, we got into the nuts and bolts of the matter. Sponsors submitted over 540 proposals for 2007–2009 that totaled hundreds of millions of dollars. The Council had to fit them into a \$143 million/year expense and \$36 million capital budget.

Projects were proposed in dozens of subbasins around the region, but PNUCC kept its eye on the \$70 million in requests for basinwide and mainstem activities. Many of these undertakings are enormous in scope and budget and are especially pertinent to impacts the federal dams have had on fish.

The Council as a whole deserves praise for tough decisions to cut funding for projects that aren't bearing fruit. We applaud efforts to reserve funds in the budget to cover measures likely to be part of the new Biological Opinion being prepared under the unusually intrusive supervision of a federal court.

PNUCC furnished comments to the Council on its draft list of recommendations, urging flexibility to cover unforeseen demands and encouraging the Council to advertise the value and benefits of its fish and wildlife program more widely in the region. We also suggested the Council make clear its support for the Battelle/Pacific States Marine Fisheries Commission proposal for performing fish passage analysis and data ware-

housing. Like many in the region, we believe there should be a clear separation between analysis and advocacy in this function.

## **HONING OUR COUNCIL RELATIONSHIP AND REPORTS**

Our knowledge of the Council's program was enhanced this year when, on several occasions, the Council chair and other members and staff attended PNUCC board meetings. We learned more and had a good chance to impart our point of view in these face-to-face discussions.

PNUCC is among the first to feel the impact of Council decisions both in fish and wildlife and power planning. We continue to provide our members with a lively account of the Council's monthly meetings. Our reports highlight Council decisions and give a flavor for the politics and policies that influence the Council agenda and affect our industry.

## **PUTTING THE KIBOSH ON A FAULTY FLOOD STUDY**

In March, PNUCC's members objected to a Corps of Engineers' proposal to use \$30 million in Columbia River Fish Mitigation funds for a flood control review. We pointed out the dubious premise for the study—assumed survival benefits from an incremental increase in flows—as well as the lack of a clear biological benefit that would result from such a large outlay of ratepayer funds. The Corps decided to reconsider the idea.

## **NEXT YEAR, WE'RE NOT ABOUT TO LET UP**

PNUCC will go on the road in 2007 with its recommended strategies for developing renewable resources. We will aim to acquaint policymakers, utility managers, and the public with the results of our extensive 2006 research. We also expect to see new proposals surface nationally and regionally on climate change and greenhouse gases, and we're sharpening our pencils for the analyses.

PNUCC will stay close to the effort to put together the region's Northwest Wind Integration Action Plan. We'll make sure it covers the right issues, factors in all the costs, and formulates workable approaches so the region can safely and economically host a wealth of wind generators in the future.

Early next year, we will assess the progress on resource adequacy plans and standards and contribute our views as that process moves forward. Our Northwest Regional Forecast will be an important tool in this work.

When BPA issues its final Regional Dialogue decisions, we'll be ready to help our members gauge the impact and implications for long-term contracts. And we'll continue meeting regularly with BPA's top brass to make sure our members get early indications of decisions that could affect their future costs and options.

We also foresee activity in the transmission arena next year, as the region tries to expand capacity and hook up more non-traditional resources.

PNUCC anticipates a full slate of fish and wildlife issues as well. The Council has embarked on developing province-level biological objectives for its program. We intend to track this process closely, and we will also be continuing our odyssey into F&W project funding in all corners of the Columbia River Basin.

PNUCC will advocate for river operations that are cost-effective and scientifically sound. System operations are an extremely expensive instrument in the region's fish and wildlife toolbox. Needless spill is particularly egregious. PNUCC will continue to push for accountability for summer spill and to watchdog its effect on the power system's ability to meet growing hot-weather loads.

PNUCC will keep its members briefed on the progress of the Biological Opinion and its potential for significant impacts on hydrosystem operations. We are keeping up to date with NOAA Fisheries on preparation of ESA Recovery Plans and will likely see officials from that agency in our board room next year.

## **MEASURING THE PNUCC FOOTPRINT**

It is not always easy to gauge the impact we have day to day. But all indications are that something important happens every month when we gather at PNUCC. In 2007, as in the past, PNUCC will bring together the region's electricity industry leaders to demonstrate the power of good ideas at work in meeting industry challenges.

SUCCESS IS MEASURED



## MISSION STATEMENT

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 to discuss policy issues of regional importance
- The hub for technical analysis and data on vital Northwest power industry issues

## ABOUT PNUCC

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.

## 2006 BUDGET

Staff Expenses	\$ 376,000
Overhead Expenses	\$ 137,000
Contractors	\$ 115,000
.....	
	\$ 628,000

## PNUCC STAFF

Dick Adams  
Executive Director  
dick@pnucc.org  
503.294.1268

Shauna McReynolds  
Deputy Director  
shauna@pnucc.org  
503.294.1264

Lee Zander Corum  
Environmental & Energy Analyst  
lee@pnucc.org  
503.294.1259



101 SW Main, Suite 1605  
Portland, Oregon 97204-3216  
[www.pnucc.org](http://www.pnucc.org)

## 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  
Columbia Falls Aluminum Co.  
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.  
PacifiCorp  
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 Power  
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

## 2006 BOARD OF DIRECTORS

Jack Speer, Alcoa Inc.  
Chairman  
Jim Sanders, Benton PUD  
1st Vice-Chairman  
Jim Lobdell, Portland General Electric  
2nd Vice-Chairman  
Kelly Norwood, Avista Corp.  
Treasurer

Scott Brattebo	PacifiCorp
Jorge Carrasco	Seattle City Light
Tim Culbertson	Grant County PUD
Steve Eldrige	Umatilla Electric Co-op.
David Gates	NorthWestern Energy
Kimberly Harris	Puget Sound Energy
Dick Helgeson	Eugene Water & Electric Board
Steve Klein	Snohomish County PUD
Jim Miller	Idaho Power
David Mills	Puget Sound Energy
Joe Nadal	PNGC Power
Phil Obenchain	Idaho Power
Pete Peterson	Portland General Electric
Jean Ryckman	Franklin County PUD
Melissa Seymour	PacifiCorp
Mark Stauffer	NorthWestern Energy
Jim Stromberg	Columbia Falls Aluminum Co.
Ken Sugden	Flathead Electric Co-op.
George Whitener	Tacoma Power