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THE 2007 PNUCC ANNUAL REPORT

PNUCC

CHAIRMAN'S MESSAGE

Collaboration has served the Northwest utility industry well. We have a history of working together to solve problems and carry out solutions. And to our credit, we are accustomed to joint efforts in everything from Bonneville rate cases to the Council's fish and wildlife program.

Our ability to work collectively is being put to the test with the unprecedented number and weight of issues we face from within and outside the region. I suspect we will need all the cooperation we can muster to get through the next several years.

The Northwest has a great stake in the nation's response to global climate change. This issue has captured the public's attention with lightning speed, and PNUCC has been an important forum for discussing the ramifications for our industry. Our clean, renewable hydro system gives us an edge when it comes to a "carbon footprint," but that advantage could be blunted depending on how national legislation takes shape.

State responses to climate change and the quest for renewables have presented our industry with many challenges closer to home. Legislatures will remain active in this arena. They will continue to adopt bills and will be pressed to remedy problems that are bubbling up from those already passed.

PNUCC draws its members from across the region, and we can learn from each other as things play out in the four states. Our forum offers us a way to observe the wisdom and, at times, the folly of various approaches. We also have the opportunity to educate others, as we did when we compiled our *PNUCC Renewable Portfolio Standards Progress Report*.

The Regional Dialogue continues to be one of the most intractable processes we have dealt with as a region. The Ninth Circuit Court came forward with a decision in 2007 that has added yet another layer of complexity. I expressed disappointment last year with our lack of progress in resolving the Dialogue's stickiest issues. It appears, unfortunately, that we are as far apart as ever.

BPA will attempt to provide long-term certainty with respect to Northwest benefits from the federal hydro system, when it offers contracts in 2008. We need to help the agency formulate its plan in a way that benefits everyone and diminishes the regional squabbling. Consensus will yield the most sustainable results.

PNUCC is a crucial link to building relationships, encouraging communication, and sharing information. This is especially true when such monumental challenges are at our door. As I wind up another term as the organization's chairman, I can say I am proud to be a part of this collegial and constructive team.

Jack Speer



DIRECTOR'S MESSAGE

From climate change to state capitals to the light switch down the hall, PNUCC's concerns these days reach up, down, and across the board. In the 61 years we have been in existence, the span of issues we've faced is extraordinary. What's so heartening is how we have come together, time and again, to sleuth out solutions and carry forward the interests of the Northwest utility industry and its customers.

We went global in 2007, taking on the question of how complex legislative proposals to combat worldwide climate change would affect our members. PNUCC formed a task force that delved into possible impacts and came up with a set of principles that lay out clearly for legislators what is important to the Northwest. In this effort, PNUCC demonstrated several of its unique strengths: our ability to analyze problems and get to the heart of the matter, and our willingness to partner up, regardless of what customer group we come from, to work on issues that affect us all.

We used that approach to figure out what new renewable portfolio standards, now mandated in Montana, Oregon, and Washington, might mean to our shared mission of keeping the lights on across the Northwest. PNUCC produced a position paper on renewable portfolio standards this year with a set of key messages aimed at helping policymakers and customers understand more about the costs, benefits, and realities of renewable energy.

On the salmon front, we hired a consultant to analyze the goals of regional salmon recovery plans. The analysis found that clearer biological objectives are needed. We have begun communicating that message to fish and wildlife planners and making a concerted effort to ascertain how the interests of other groups match up with ours.

While these issues played out, utilities spent a lot of time sharing information through PNUCC on how they will meet growing future resource needs. The latest integrated resource plans show that new partnerships are forming among utilities and with international companies, independent power producers, and new technology providers, all in the interest of keeping the electrons flowing at a reasonable cost.

We are likely to see additional innovative partnerships materialize next year as we learn to develop smarter grids, integrate wind more effectively and continue to press for on-the-ground results across a variety of fish and wildlife venues. You can keep track of all the players and new developments at our board meetings every month. Join us, and together we can make the future less of a puzzle.

Dick Adams

COLLEAGUES & ENERGY **PNUCC**

In a world being transformed by technology and environmental imperatives, PNUCC members are collaborating to harness the best of the new and weed out the unworkable. Meanwhile, we never lose sight of our decades-old and most basic commitment: reliable electricity at a reasonable cost across the Northwest. Today as complex legislative proposals to fight global climate change are surfacing all around us, it isn't easy to find the right responses, and it can't be done alone.

That's why the connections we make through PNUCC are so valuable. This year, we relied even more heavily on cooperative efforts among our members, not only to protect our flanks, but also to help us get smarter about how to meet our customers' needs in the digital economy of tomorrow.

OUR RENEWABLE STANDARD **HYDRO**

No region in the United States has more experience with renewable energy than the Northwest, where we have enjoyed the benefits of hydroelectricity for 70 years. We've made it our business to lead the efforts to determine what it takes to make more use of renewable energy.

Utilities are partnering with a new set of players to develop wind and other types of renewable energy, including solar and tidal power.

Montana, Washington and Oregon approved legislation requiring utilities to use renewable energy to meet load, and there's a national push to mandate renewable resource development. In response, PNUCC created a task force to scope out issues raised by these new initiatives and consider how they will affect Northwest utilities. We put together a *Renewables Portfolio Standards Progress Report*, and one of its key points is that hydropower needs to be accounted for in a manner that will put the Northwest on equal footing with the rest of the nation.

Utilities are also partnering with a new set of players to develop wind and other types of renewable energy, including solar and tidal power. PNUCC applauds these progressive projects, while also keeping sight of what's workable, what's problematic, and what else is needed. We call for more research into new energy-saving technologies, more attention to demand-side management and transmission needs, and a realistic assessment by policymakers about what new renewables requirements actually cost.


GORGE-OUS SOURCE OF ENERGY **WIND**

Wind energy projects are being developed throughout the region, and if Northwest utilities are to meet the new aggressive renewable resource development targets, a lot more turbines will need to be built. PNUCC's renewables portfolio standards analysis found that reliably integrating large amounts of intermittent resources, such as wind, into the power system presents significant challenges. We are working to increase understanding of how much backup generation will be required and also the transmission needed to access remote wind turbine locations.

PNUCC members have played an important role in the region's Wind Integration Forum, coordinated by BPA and the Northwest Power and Conservation Council. The Forum published a *Wind Integration Action Plan* for the region this year. It highlights the energy benefits of wind, but points out Northwest utilities will still need to rely on capacity resources, including hydro, thermal and demand-side, to meet peak loads in the future.

REGION WITH LOWEST CO₂ EMISSIONS **NORTHWEST**

Numerous sweeping legislative proposals to combat climate change emerged in Washington, D.C. this year, and Congress seems eager to take action. PNUCC decided the industry should be prepared to discuss the impacts of these varied and sometimes grandiose ideas, so we assembled a Global Climate Change Task Force to examine how climate change regulations could affect Pacific Northwest utilities and their customers.



Reliably integrating large amounts of intermittent resources, such as wind, into the power system will present significant challenges.

Our work pointed out that energy generation here produces less CO₂ per megawatt-hour than in any other region of the country, but our reliance on hydropower also makes us vulnerable to weather changes caused by global warming. PNUCC adopted a set of principles developed by the task force that will be used to inform the upcoming discussions of climate change legislation. Our principles state that greenhouse gas rules need to cover all sectors of the economy, and that emissions legislation should fully credit utilities for past accomplishments in renewables, energy efficiency, and investments in climate-friendly technologies.

In the coming year, we'll watch how this issue progresses and make sure Northwest utility community views are plugged into the debate. We are particularly adamant that the needs of fast-growing regions are recognized and that reliable sources of energy remain affordable to our customers.

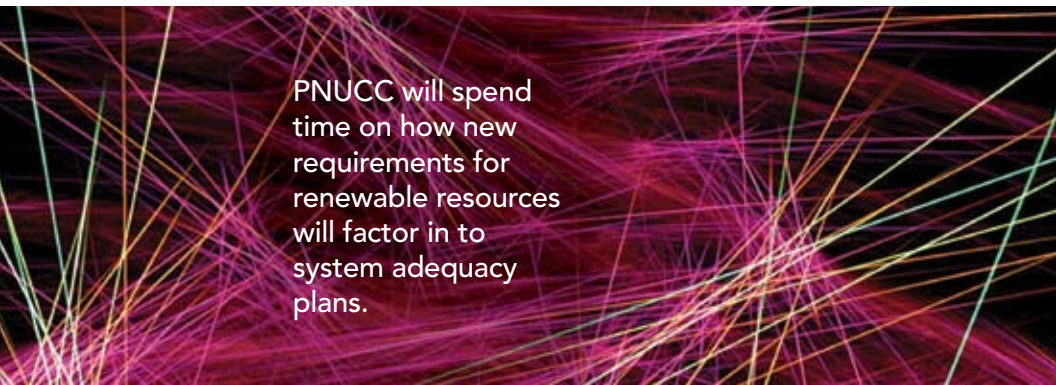
THE POWER ORACLE **NRF**

The region looks to PNUCC's *Northwest Regional Forecast* to help unravel the mysteries of the future, particularly when that future includes explosive demand growth. The NRF provides a comprehensive look at the region's electric power loads and resources over the next 10 years, and in 2007, it included more information on conservation and clean energy. The NRF reported this year that the resources used by Northwest utilities are 70 percent CO₂-emissions-free.

Resource adequacy has always preoccupied PNUCC, and no other region has a tool like the *Northwest Regional Forecast*. It aggregates the integrated resource plans of all the utilities in the Northwest and enables us to understand what those plans include, how they intersect, and what they mean for the big picture of regional adequacy.

24/7 ELECTRICITY **ADEQUACY**

PNUCC worked with the Resource Adequacy Forum, convened by the Council and BPA to make sure its efforts are in tune with the utilities. The Forum has developed energy and capacity adequacy standards for the region, and this year we met with Forum representatives several times to talk about how their assessment of the health of the region's power system matches up with the real-world concerns of utility managers.



PNUCC will spend time on how new requirements for renewable resources will factor in to system adequacy plans.

In the coming year, through our newly created System Planning Work Group, PNUCC will weigh in on the "economic" standard for resource adequacy the Forum intends to develop. We also expect to spend a lot of time discussing how to meet the region's peak demand in both summer and winter and how the new requirements for renewable resources will factor into those efforts.

PNUCC is on the lookout for discrepancies between what the Council is working on, such as numbers and assumptions in the Northwest Power Plan, and what we

know utilities are doing or planning to do. This vigilance is made easier by the *Council Reports* we produce every month. They are tailored to meet utility interests and contain in-depth accounts of the Council's meetings and related activities.

THOSE IN THE KNOW **OUR MEMBERS**

PNUCC kept its members apprised of the myriad transmission developments this year. We took a close look at BPA and Northwest utility concerns with respect to FERC's Order 890, aimed at preventing discrimination in transmission services. PNUCC hosted an Ad Hoc Transmission Work Group to press the case for reconsideration of this order. We will make our voice heard in upcoming discussions about regional transmission adequacy.

This year BPA came out with its long-term Regional Dialogue Policy and Record of Decision (ROD) defining the agency's long-term power supply role for the region. That milestone was overwhelmed by a Ninth Circuit Court decision that unwound the terms of BPA's settlement of the Residential Exchange program. PNUCC members were kept up to speed at each twist and turn of this issue.

Even though the Dialogue raises difficult and potentially divisive issues, it hasn't eroded PNUCC's tradition of collegiality and cooperation. Our ability to provide a productive marketplace of ideas continues to inspire our members to work together to provide reliable electricity to the people of the Northwest.

Knowing the key players is also a part of PNUCC's mission. This year, we sat down for a chat with the Council's new fish and wildlife director, Tony Grover. He thanked PNUCC for its contribution to the amendment discussion and pointed out that our work is helping to illuminate tensions between provisions of the Northwest Power Act and those of the Endangered Species Act. He reiterated the Council's view that good relationships and partnerships among all the players are imperative to doing positive work for the region's fish and wildlife.

PNUCC's tradition of collegiality and cooperation remains strong, even in the face of difficult and divisive issues.

SLANG FOR SALMON **NW FISH**

PNUCC can continue to take credit for inserting logic and reason into discussions of salmon recovery in the Northwest. Early this year, we zeroed in on the Council's process to amend its fish and wildlife program. Our staff is playing an instrumental role in an ad hoc group to consider whether biological objectives tailored to geographic areas—larger than subbasins but smaller than the entire Columbia River Basin—would add value to the Council's program.

The group includes members of the utility industry, tribal representatives, fish and wildlife managers, and BPA and Council staff capturing a broad range of interests. Collaboration is a requirement for being effective in the fish and wildlife arena.

We began our discussions about biological objectives on the premise that well-defined, measurable goals for salmon restoration would provide the Council with needed guidance for selecting and recommending projects for BPA to fund. We also thought biological objectives would help focus salmon restoration in areas where it would likely achieve the greatest results.

In its early stages, the ad hoc group drew up a set of principles for how to approach the question of biological objectives. One of our chief concerns was examining how biological objectives for the Council's program would dovetail with those identified in other programs to protect Columbia River Basin fish and wildlife.

FISH EXPERTS **B I O A N A L Y S T S**

We soon realized we needed to increase our expertise and explore the relationship between biological objectives and BPA's mitigation responsibility for the federal hydro system. To aid our efforts, we engaged BioAnalysts, Inc.

This group of fisheries scientists helped us gain a better understanding of current biological goals and objectives for salmon and steelhead in the basin. From existing recovery plans to habitat conservation programs to federal relicensing agreements, BioAnalysts identified a number of issues and gave us expert advice that will guide us as we participate in the Council's amendment process. Among other things, we learned that existing biological objectives in the Council's program are out of sync with the work of a technical team developing recovery goals for salmon populations listed under the Endangered Species Act.

Our conclusion after several months of work is that the Council needs to strengthen the biological objectives in its program. Without them, there is no adequate way to measure progress and be efficient in recovering and managing the Northwest's anadromous fish resources.

SHORT FOR FISH PLAN **B I O P**

PNUCC has long been an advocate for sound science and a comprehensive approach. The expected NOAA Fisheries Biological Opinion on operating the


PNUCC's goal in short: A comprehensive fish plan based on sound science.

Federal Columbia River Power System will affect everyone who buys power. We encourage parties engaged in the litigation over this Biological Opinion to continue advocating for good science and the contribution of all Hs—hydro, habitat, harvest and hatcheries—to recover listed fish.

We met with representatives of the federal agencies charged with developing plans for operating the river. They did a thorough status assessment of listed salmon and steelhead and used it as the foundation for their plan to add protections for the region's listed stocks.

VALUABLE UTILITY FORUM **PNUCC**

As we head into 2008, we see opportunities aplenty to work jointly on federal legislation to address climate change and CO₂ emissions. We will stand with others in the region to assure that our good decisions on conservation and renewables and our non-polluting hydro system are fairly treated as national policy takes shape.



PNUCC will help the Northwest meet challenges in the region's energy future through thoughtful collaboration.

No one can go it alone when it comes to transmission. As the pressure builds for new high-voltage lines in the Northwest, we see PNUCC positioned to keep its members in the know as projects start to move from planning to reality.

PNUCC will continue to work within the ad hoc group to push for biological objectives in the Council's Fish and Wildlife Program and for more consistency between the program and other efforts in the region. And we will continue to press for a Biological Opinion that builds on recovery measures that are working.

Looking ahead, one thing is for certain. As is so often the case, PNUCC will help the Northwest meet challenges in the region's energy future through thoughtful collaboration and the willingness of utility leaders to work in partnership to reach our collective goals. *Say hello to the future power of good ideas.*


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Blachly Lane Electric Co-op.
Bonners Ferry Electric Dept.
Canby Utility
Central Electric Co-op.
Chelan County PUD
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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 Elec. 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
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Northern Lights Inc.
NorthWestern Energy
Okanogan Co. Elec. Co-op.
Pacific Power
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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
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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

2007 BUDGET

Staff Expenses	\$395,000
Overhead Expenses	\$135,000
Contractors	\$115,000
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	\$645,000

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