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— Energy Strategy Update:
*Responding to the New
Electricity Landscape*

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Guiding Principle #1

Encourage all load-serving entities to adopt and implement integrated resource plans to ensure they have adequate resources to meet their obligation to serve their customers' projected long term energy and capacity needs.

During the latter half of the 1990s many states began to investigate whether to shift their electrical systems from a regulated monopoly-based utility system in which consumers receive electricity service from a single utility provider, to a retail open access structure, which would allow consumers to choose their electricity provider. This process is often referred to as electricity deregulation or restructuring. Several western states - notably California, Oregon, and Montana - chose to adopt some level of open retail access. Washington State chose not to move in that direction and, in light of the California restructuring debacle, it is unlikely to do so in the foreseeable future. Consequently, load-serving utilities with an explicit obligation to serve all customer loads will remain the predominant providers of electricity for Washington consumers.

The Pacific Northwest states have a long history of using integrated resource plans (IRP) and tools as a basis for utility resource and planning decisions. The federal 1990 Northwest Power Act helped to establish the IRP approach and the Northwest Power Planning Council (NWPPC) has used IRP as a key element in its regional electricity planning process. Many consumer-owned utilities have depended on IRP as their principal planning tool. In addition, the Washington Utilities and Transportation Commission requires that its regulated utilities regularly develop and adopt integrated resource plans. (WAC 480-100-238: Least cost planning.)

The primary purposes of this principle are to:

- ◆ Reaffirm the continued predominance of load-serving utilities as the state's electricity service model;
- ◆ Underscore the continuing obligation that the state's utilities have to serve their customers' load requirements and to acquire the resources necessary to do so;

- ◆ Recognize that current and future electricity markets are likely to experience greater price volatility, and supply risk than has historically occurred prior to 2000;
- ◆ Acknowledge that integrated resource planning provides the best general method for utilities to ensure that they can serve their customers' current and future needs; and
- ◆ Recognize that, because of market volatility, integrated resource plans and their implementation will need to be changed as circumstances dictate.

Guiding Principle #2

Encourage the development of a balanced, cost-effective and environmentally sound resource portfolio that includes conservation, renewables (e.g., wind, geothermal, hydro, biomass, and solar technologies), and least-cost conventional resources.

This principle expands on the concepts set forth in principle #1 by focusing both on the types of new resources that should be developed and the underlying principles of integrated resource planning. If we expect Washington utilities to acquire the resources they need, we also expect them to do so in the most environmentally sensitive and cost-effective manner possible. While conservation is the resource of choice, there is not sufficient cost-effective conservation to meet all of the region's needs. Similarly, although many renewable resources (such as wind power) are often cost competitive with gas-fired combustion turbines when federal subsidies and risk mitigation factors are included, it is not clear that the region can rely upon renewables to cost-effectively meet our need for new resources. Therefore, a balanced portfolio of cost-effective conservation, renewables, and fossil-fuel generation will be needed to meet our increasing electricity loads. Section 4(e)(1) of the federal Northwest Electric Power and Conservation Act of 1980 creates a template for BPA to follow when acquiring resources. It states that, of the cost-effective resources available, "priority shall be given: first, to conservation; second, to renewable resources; third, to generating resources

utilizing waste heat or generating resources of high fuel conversion efficiency; and fourth, to all other resources." Over the years, there has been vigorous discussion about whether this template should be extended to all load-serving entities in the region. Whether or not utilities follow this prioritization, integrated resources plans by utilities, along with the NWPPC's Regional Power Plan, should enable utilities to meet local and regional needs in the least risky, most cost-effective, and most environmentally sensitive manner possible.

[For further information, see questions # 2, 14, 17, and 18 in Section 4.]

Guiding Principle #3

Protect the benefits to Washington consumers from the Federal Columbia River Power and Transmission System (FCRPS).

This principle acknowledges that Washington State and the Pacific Northwest have received considerable benefits from the presence of the Federal Columbia River Power and Transmission System (FCRPS). Electricity prices in the Northwest have historically been among the lowest in the United States, in large part due to the preeminent role of the federal hydroelectric and transmission system in the region. BPA supplies approximately half of the region's electricity and Washington buys half of BPA's output. When BPA, which markets the power from the federal dams, raised its wholesale rates last year in response to the drought and electricity crisis of 2000-01, the shock was felt throughout the region and especially in Washington. It is very much in the interest of Washington consumers for BPA to be financially healthy and to be able to supply power at a low cost over the long run.

Washington's access to the FCRPS cannot be taken for granted. For example, in recent years, the Midwest/Northeast Alliance has attempted to dilute those benefits through calls for market-based rates and privatization of BPA. It is also in Washington's interest to work with all other stakeholders in the region to allocate the output of the federal system through long-term contracts in a manner that is fair to all consumers in the region and

respects the "preference rights" of consumer-owned utilities. This will ensure that both BPA and the region's utilities can plan for their responsibilities within a relatively stable framework. It is in the state's interest to encourage a policy framework that acknowledges BPA's unique ability to provide regional leadership in energy planning, management of electricity resources, and environmental stewardship.

Northwest consumers of electricity have paid off the debt of the federal hydroelectricity system since its inception. Although they are not the owners of the system, they are the payers of the mortgage. State policy should protect the benefits of the FCRPS for Northwest consumers who have for 50 years proven themselves to be worthy stewards of the system.

Guiding Principle #4

Preserve and promote Washington's cost-based energy system to benefit the end use consumer by providing reliable power and reduce consumers' vulnerability to supply shortage and price volatility. At the same time, the state should promote policies that harness market forces in the wholesale energy market to reduce customer costs and increase reliability while protecting the environment.

This principle acknowledges that the 2000-01 electricity crisis resulted in major disruption to the state's citizens and economy, higher electricity prices, negative impacts on business and industry, more residential shutoffs, and a more volatile market. It focuses on two aspects of the electricity system – retail service to homes, businesses, and industry, and wholesale markets that directly serve utilities and some large industrial customers.

Since the 1993 SES, the electricity landscape has changed significantly. Beginning with the Energy Policy Act of 1992, the federal government set in motion a major change in the wholesale electricity market. The Act required that the transmission system be opened up to wholesale sellers of electricity including independent power producers. As noted in the discussion of Principle #1, some

