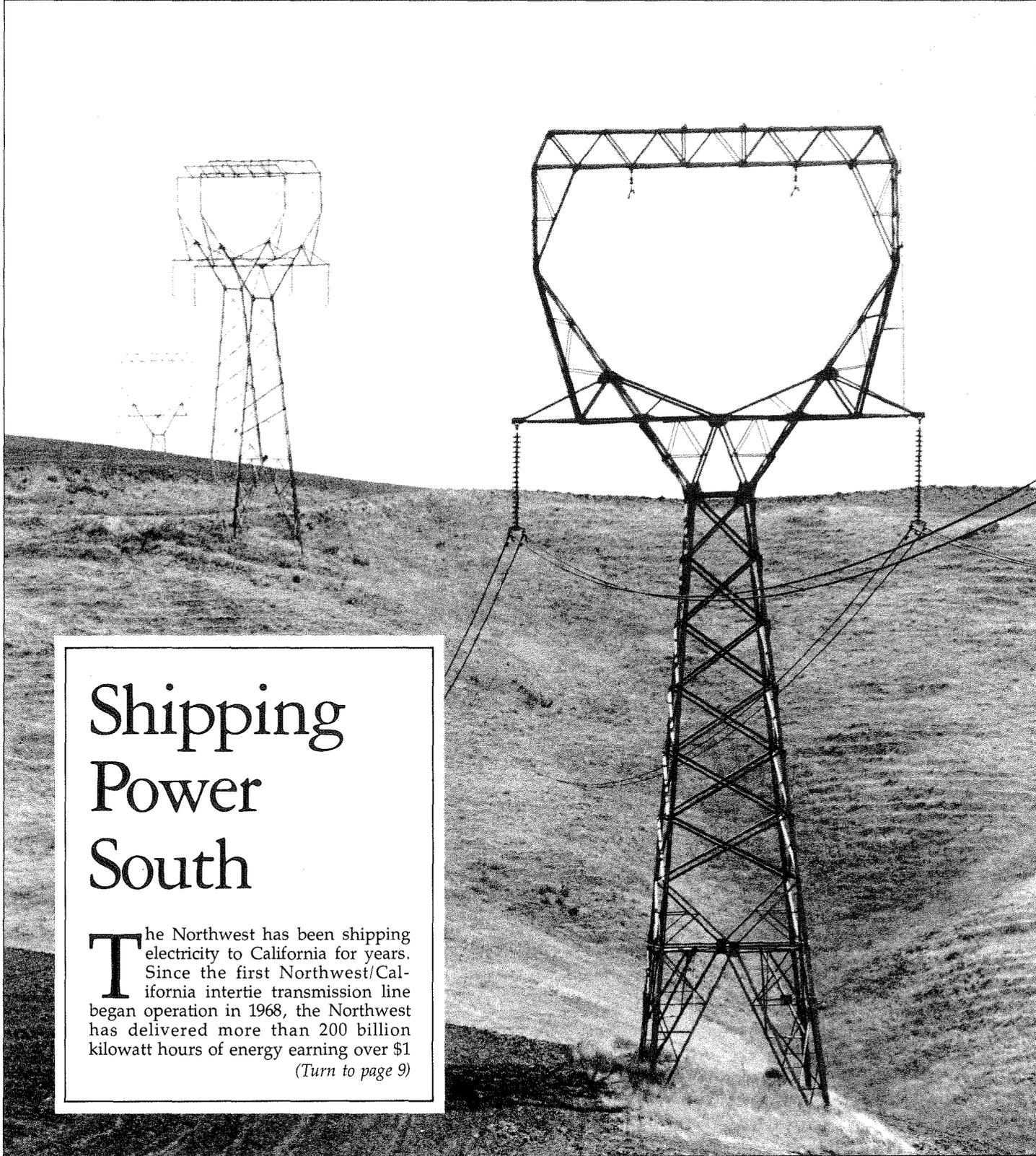


N O R T H W E S T ENERGY NEWS

Volume 2, No. 3

Northwest Power Planning Council

July/August 1983



Shipping Power South

The Northwest has been shipping electricity to California for years. Since the first Northwest/California intertie transmission line began operation in 1968, the Northwest has delivered more than 200 billion kilowatt hours of energy earning over \$1

(Turn to page 9)

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N O R T H W E S T ENERGY NEWS

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The Northwest Power Planning Council is required to develop a program to restore the Columbia's fisheries and a regional electric energy plan, to be carried out by the Bonneville Power Administration, emphasizing cost-effective conservation and renewable resources.

Cover photo: Ralph Perry

N O T I C E S

BPA implementation plan available

The Bonneville Power Administration's workplan for implementing the Northwest Power Planning Council's two-year action plan is now available. Copies may be obtained from the BPA Public Involvement Office. Call 1-800-452-8429 in Oregon and 1-800-547-6048 in Washington, Idaho, and Montana.

Energy expo planned

In conjunction with American Energy Week (Oct. 23-29), the Oregon Museum of Science and Industry in Portland will host an energy awareness expo from Oct. 14 to Oct. 30.

Exhibits will include wind and hydro power, home conservation, solar heating, photovoltaics, heat pumps, coal plants, and natural gas and oil heating technologies. Also featured will be the Northwest Power Planning Council's electric power plan and BPA's conservation programs. Evening seminars are also planned.



Correction

The March/April 1983 issue of *Northwest Energy News* mistakenly identified the individual pictured above, a witness at the Council's Coeur d'Alene hearing, as Reddy Kilowatt. In fact, the witness' name is Freddi "Fair Share" Kilowatt. We apologize for any problems this mislabeling may have caused.

Local government workshop planned

The Oregon Department of Energy will present a workshop to discuss local government implementation of the Northwest Power Plan Sept. 28 at the University of Oregon in Eugene. Topics include BPA's strategy for implementing the power plan, ODOE's preparation of an Oregon energy plan, and city and county comprehensive plans. Case studies will be presented on solar access, energy management, city/county/utility coordination, and renewable resource assessment and siting standards.

To register for the workshop or for more information, please call ODOE at (503) 378-4040 or the U of O Bureau of Governmental Research and Services at (503) 686-5232.

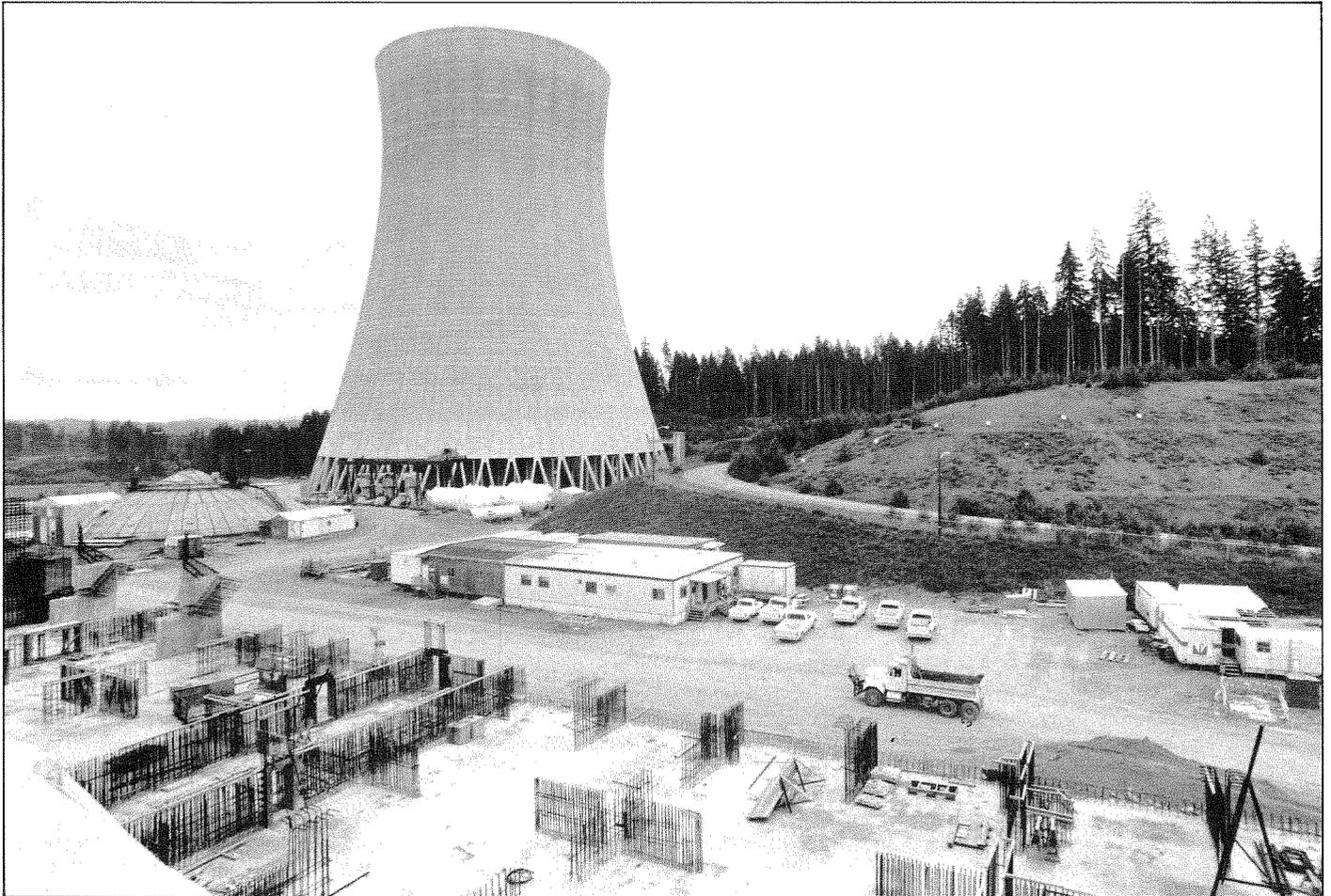
Solar conference planned

The Solar Energy Association of Oregon will hold its annual conference October 14 and 15 at the Eugene Hilton, Eugene, Oregon. Topics include photovoltaics, the pros and cons of superinsulation, building code updates, and step-by-step procedures to build a batch solar water heater. For more information, contact Allen Brown, (503) 224-7867.

Solar access workshop to be held

The Oregon Department of Energy will present a solar access workshop on October 13 at the Lane County Convention Center, Eugene fairgrounds. Topics include strategies to provide and protect solar access, legal and public policy issues, model ordinances, and microcomputer software for solar access design and implementation.

Participation is limited and no registrations can be accepted after Friday, October 7. For registration forms and more information, call ODOE at (503) 378-4040.



Nobody home: Things are pretty quiet at Satsop, site of WPPSS plants 3 and 5, these days. The action has shifted to courtrooms, meeting rooms, and Congress. See related stories on pp. 4 and 8.

WPPSS defaults, Chemical Bank sues

Suit charges WPPSS, BPA, participants with negligence

Like tumbling dominoes set in motion, the long-expected default by the Washington Public Power Supply System on financial obligations for its terminated nuclear plants 4 and 5 was unavoidable. The final chip fell July 22 when WPPSS defaulted on \$2.25 billion of bonds sold to finance the two Washington state nuclear plants by acknowledging its "inability to pay debts incurred" in construction.

Chemical Bank, the New

York-based trustee for the bonds, wasted no time in attempting to recover the funds owed its 200,000 bondholders. The bank demanded payment of all money and securities in the WPPSS 4 and 5 account. As news of the default rocked Wall Street and the municipal bond community, WPPSS transferred \$25 million in cash and securities to Chemical Bank.

The bank then filed suit Aug. 3 in U.S. District Court

in Seattle, charging that the 88 utilities that signed on for shares of the output of the two plants are guilty of fraud. The defendants are charged by Chemical Bank of negligence for failing to determine that the 88 utilities lacked the authority to participate in the 4 and 5 projects. John Fleming, a Chemical Bank vice-president, said the 88 participants acted with "reckless disregard" because they "knew or should have known" whether

they had the authority when they entered into the contracts in 1976. Furthermore, the bank argues that the participants waited too long — six years — to repudiate their agreement on the grounds of lack of authority.

WPPSS itself was named as a defendant for mismanaging the projects. The Bonneville Power Administration is also named as a defendant in the suit for its role in promoting the construction of the two

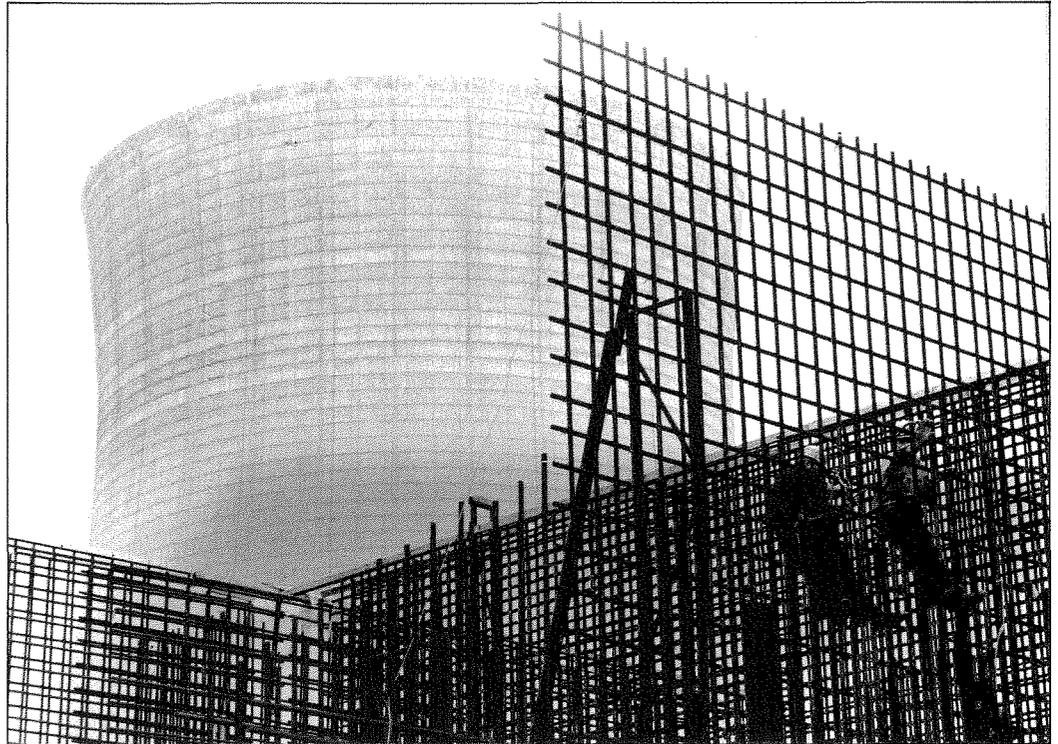
plants. The defendants also include 23 municipalities represented on the WPPSS board, including the city of Seattle, and more than 600 individuals who are present and former utility officials. Absent in the list of defendants are the bond writers and bond counselors who promoted the sale of the bonds.

The Chemical Bank suit was in response to a Washington Supreme Court ruling in June that the 29 Washington utilities didn't have the authority to enter into contracts backing construction of 4 and 5. An Oregon court reached the same conclusion regarding the 11 utilities in that state which are WPPSS participants. A similar case is pending in the Idaho Supreme Court.

WPPSS had been limping toward default for months. When it failed to make a \$15.6 million bond interest payment due in May to Chemical Bank, the system was already in technical default.

At this point, WPPSS is waiting to see what Chemical Bank decides to do next, according to spokesman Gary Peterson. The system is preparing to sell the remnants of its two terminated plants. But if the Tennessee Valley Authority's experience with sales of unused nuclear plant parts is any comparison, WPPSS would be "doing good" if it could garner \$30 to \$40 million for its reactor vessels and miles of pipes and electrical cables.

Speculation abounds on Wall Street about a possible WPPSS reorganization under Chapter 9 of the federal bankruptcy laws. A bankruptcy could remove final roadblocks to joining the assets of all five plants. That isn't even a remote possibility, according to WPPSS spokesman Steve Irish. "The Executive Board has continued to state that it will not file for bankruptcy," Irish said. The WPPSS Executive Board formally rejected that option in a resolution adopted February 25, Irish said. As a municipal corporation, WPPSS cannot be forced into bankruptcy. "No outside force could make that happen," said Donald Mazur, WPPSS managing director.



Building fences: In an attempt to continue construction of WPPSS plant 3, Idaho Sen. McClure introduced legislation which has led to confrontation and controversy.

WPPSS is still hoping that Congress will step in to find a solution for 4 and 5. "I just can't believe they would leave \$2.25 billion in the bondholders' laps," Peterson said.

Meanwhile, WPPSS and BPA are also on the alert for any moves by Chemical Bank to attach the assets of plants 4 and 5 to the net-billed plants 1-3. Chemical Bank's Fleming said the bank would "look for any assets we can get our hands on," and the bank would "let the courts decide if there is a wall between 1-3 and 4-5." But he added, "To me, WPPSS is WPPSS."

WPPSS 3 legislation proves controversial

While the Washington Public Power Supply System sank deeper into the throes of default, federal legislation aimed at funding the completion of WPPSS plant 3 was being

pushed in Congress by Idaho Senator James McClure. The Republican chairman of the Senate Energy and Natural Resources Committee introduced legislation which would allow the Bonneville Power Administration to contract with a separate financing entity to fund the completion of plant 3, now 75 percent complete. This entity would either borrow money or issue bonds for the plant's completion.

The legislation was first introduced in late July as an amendment to the U.S. Dept. of Interior Appropriations bill. Companion legislation, identical to the Appropriations rider, was later introduced by McClure in response to protests over the appropriateness of dealing with the issue in an amendment. Co-sponsors of the legislation include Sens. Slade Gorton, R-Wash., Henry Jackson, D-Wash., Steve Symms, R-Idaho, and Max Baucus, D-Mont.

Construction at the Satsop, Wash., plant was halted in July for up to three years when funds for the plant dried up due to legal and financial uncertainties. Wall Street has blocked the Supply System from issuing further bonds to

finance the completion of WPPSS 3 because of these uncertainties, including the fear that in the wake of the WPPSS 4 and 5 default, creditors may seek to attach the assets of these plants with the first three plants. About \$960 million is needed to complete plant 3. BPA, which backs 70 percent of the plant, has refused to provide further funding for its construction, stating that its rates would climb another 20 percent if the agency paid for the completion of plant 3 through its revenues.

On the other hand, four private utilities which own 30 percent of the plant have been lobbying heavily on Capitol Hill for the legislation. The utilities — Portland General Electric, Pacific Power and Light, Puget Sound Power and Light, and Washington Water Power — have collectively invested more than \$600 million in the stalled plant. Three of the utilities — Portland General Electric, Puget Power, and Washington Water Power — sued BPA, WPPSS, and 103 public utilities July 29 in U.S. District Court in Seattle, citing breach of the ownership agreements to complete plant 3.

McClure's Senate Energy Committee held a hearing on the proposed legislation Aug. 3 with a host of regional agencies, utilities, and environmental organizations scrutinizing the intent of the measure.

Northwest Power Planning Council member Chuck Collins testified that the Council supports efforts to find a way to continue the construction of WPPSS 3 and ensure the completion of WPPSS 2. Mothballing the plant could increase its completion costs to the point where it's no longer cost-effective, said Collins. The Council, however, urged the committee to initiate a public examination of the need for the plant's power and the risks of delaying it.

Jim Boldt, director of the Washington Public Utility Districts' Association, testified that public utilities are concerned about the commitment of ratepayers' dollars for the new financial entity proposed under the legislation. The public utilities also argue that the proposed legislation doesn't deal with the pressing problems resulting from WPPSS 4 and 5.

BPA Administrator Peter Johnson told the committee that any direct payments from BPA revenues to finance the plant's construction could require up to an additional 20 percent rate increase. BPA asserts that the most financially prudent approach is to continue the 3-year construction delay of WPPSS plant 3, said BPA spokesman Ed Mosey.

In the wake of the Senate hearing, however, BPA is analyzing the effects on its rates of different construction and financing scenarios for plant 3.

BPA regards the legislation as a "step in the right direction," said BPA assistant administrator Robert Ratcliffe, but the legislative package falls short of addressing the "real problems plaguing the Northwest." A way must still be found to protect the assets of the first three WPPSS plants from a possible bankruptcy of WPPSS 4 and 5 or the region will be "fighting off creditors" who will try to attach the assets of plants 4 and 5 with the net-billed plants, he said.

Even if the proposed legislation clears both the House and Senate, BPA will still have to negotiate with commercial banks on the financing terms and interest rate for loans before the plant can continue construction. Citibank and Chase Manhattan, two New York banks, are apparently willing to provide the money to complete plant 3, if the short-term loan is backed by the BPA.

Congressman John Dingell, D-Michigan and Richard Ottinger, D-New York, have scheduled a Sept. 15 hearing on the measure. Both have voiced major reservations about the proposed legislation in a July 21 letter to Rep. Sidney Yates, Chairman of the House Appropriations Subcommittee on Interior.

In a stinging letter, Dingell and Ottinger questioned the "broad, new authority" that would be extended to BPA under the proposed legislation. They argued that this would constitute a "blank check in the hands of the BPA administrator." They also

questioned whether the proposed financing entity would be able to "circumvent the problems faced by WPPSS and the utilities today." And they objected to the hasty way in which the legislation was prepared and presented.

Suits filed against Northwest power plan

Lawsuits have been filed by a group of Northwest natural gas companies and by the Seattle Master Builders Association challenging several provisions in the Northwest Power Planning Council's regional power plan. The suits were filed in the U.S. Ninth Circuit Court of Appeals.

The participating natural gas companies include Northwest

Natural Gas, Washington Natural Gas, Cascade Natural Gas, Intermountain Gas, C.P. National Corporation, and Northwest Pipeline Company.

The Seattle Master Builders have been joined by the Homebuilders Association of Spokane, the National Woodwork Manufacturers Association, Fir and Hemlock Door Association, Shelter Development Corporation, Clair W. Daines, Inc., Conner Development Company, and Donald N. McDonald.

"We are confident that the plan follows the mandate of the Northwest Power Act," said Council executive director Edward Sheets. "The plan was adopted after two years of intensive work which included studies, consultations, open public meetings and hearings. The Council carefully considered comments from a wide range of parties. Every effort was made to accommodate concerns."

One concern of the natural gas industry, according to the suit filed, is the plan's provision that encourages the



Building code conflicts: Suits have been filed by a group of natural gas companies and by several builders objecting to the Council's model conservation standards for new construction.

marketing of interruptible surplus electric power in the Northwest. The plan calls for the Bonneville Power Administration to develop regional markets for non-firm energy with an emphasis on the industrial sector. The natural gas industry argues that such a program encourages the installation of industrial electric boilers to the detriment of other fuels.

"The Council's plan seeks to make the most efficient use of the existing electric power system," Sheets said. "We are encouraging new ways to use excess hydropower that would otherwise be wasted. It makes economic sense to use the spring runoff to produce power in the region rather than spilling it over the dams or selling it outside the region to benefit California industry."

The Council's plan proposes that BPA offer this surplus power to Northwest industries on an interruptible basis.

When the power is not available, the industries would have to turn to other fuels. New generating resources would not be built to provide electricity for this purpose.

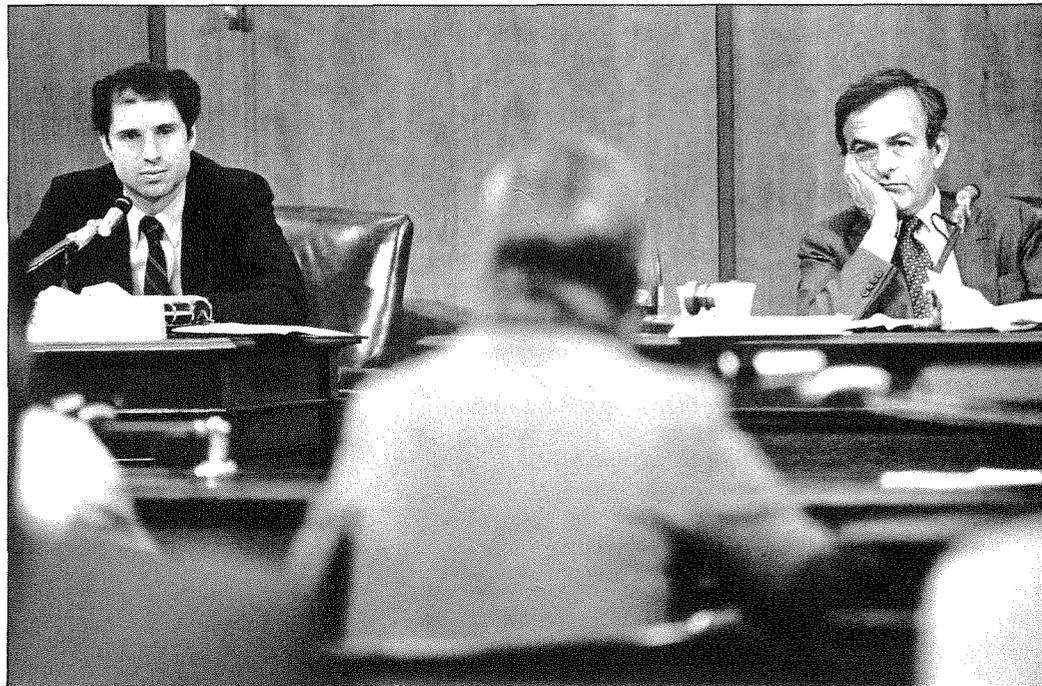
"This program would not be subsidized by other electricity ratepayers," said Sheets. "In fact, all ratepayers would benefit because the increase in BPA revenues means lower rates for others."

The natural gas industry also challenges the Council's model conservation standards. They argue that the Council did not consider the cost-effectiveness of the standards for a home that does not use electric heat.

"The Northwest Power Act requires the Council to include model conservation standards in its regional power plan," Sheets said. "The Council's authority extends only to electric power, and the standards are required only for electrically-heated homes."

The Seattle Master Builders challenge the cost-effectiveness of the model standards for homebuyers and argue that implementation of the standards should be delayed until a planned new home demonstration program is concluded.

"Congress gave us two years to develop the plan,"



Contracts criticized: At a June oversight hearing, Reps. Ron Wyden (l.) and Richard Ottinger (r.) censured Bonneville for issuing conservation contracts inconsistent with the Council's energy plan.

Sheets said. "During those two years, we researched and applied substantial amounts of information related to home energy use, costs and savings of conservation measures, and conservation potential. We used very conservative assumptions in developing the standards. We are confident that they are reasonable and cost-effective to the homeowner."

"The demonstration program is expected to refine the data, to come up with other ways to achieve the standards, but it is not expected to change the underlying assumptions. If in fact it does, the Council is always prepared to amend the plan."

More information on the natural gas companies' suit or copies of their petition for review may be obtained from Craig J. Casey at Ragen, Roberts, O'Scannlain, Robertson & Neill; 1600 Orbanco Bldg.; 1001 S.W. 5th Ave.; Portland, OR 97204-1157; (503) 224-1600.

More information or copies of the builders association's petition for review may be obtained by contacting John W. Hempelmann or Paul Sikora at Diamond & Sylvester; 400 Hoge Bldg.; Seattle, WA 98104; (206) 623-1330.

Bonneville conservation contracts criticized

The Bonneville Power Administration's long-term conservation contracts have come under fire from a number of parties, including utilities, a Congressional committee, and the Northwest Power Planning Council.

The seven-year contracts, offered to 123 utilities on July 6, are due to take effect on October 1.

The major objection of many utilities to the contracts is the provision for a "contract charge." Utilities that generate part of their own power will pay an annual charge based on their share of the region's total load.

Steve Hickok, BPA assistant administrator for conservation, defended the charge as necessary to achieve cost equity.

"BPA passes on the costs of conservation through its wholesale power rates," Hickok said. "But utilities with their own generation avoid paying some of those conser-

vation costs, even though their customers are benefiting from BPA programs."

Jim Todd, Seattle City Light's chief negotiator for the conservation contracts, disputed BPA's rationale for the charge.

"We start from the premise that conservation is a resource that ought to be treated the same as a generating resource. BPA wants us to pay a premium for allowing them to acquire a conservation resource in our service territory. We see no legal, economic, or other rationale for collecting the costs on that basis."

The long-term contracts are due to be signed by September 30 when the short-term contracts expire. Utilities, both public and private, that generate part of their own power are worried about the contracts' economic risks. Several of the generating utilities have expressed a reluctance to sign the contracts, and Idaho Power has announced that it will not sign.

"There is widespread concern about Bonneville's enormous latitude in the contracts," Todd said. "We can only make guesses as to how much the contract charge will be, and we don't know how much funding

we will receive."

At a June oversight hearing in Portland, Rep. Richard Ottinger expressed his own concern about the conservation contracts. Ottinger, chairman of the House Energy and Commerce Committee's Subcommittee on Energy Conservation and Power, criticized BPA Administrator Peter Johnson for issuing conservation contracts that are not consistent with the Northwest Power Planning Council's regional power plan.

"I do not like your stepping off on the wrong foot," Ottinger told Johnson. "In some of the most important issues, these contracts do not address the plan."

According to the Council, the conservation contracts are inconsistent with the plan in several areas: 1) BPA has a different definition of low-income; 2) BPA's cost reimbursement level for low-income households is lower than the plan's; 3) the consumer incentive is lower than current BPA incentive levels; 4) there is no requirement that "all structurally feasible and regionally cost-effective measures" must be installed in order to receive BPA funding; and 5) there is no requirement that low-income and tenant-occupied households will be weatherized in proportion to their share of electrically-heated households.

Bonneville responded to the criticisms of Ottinger and the Council when the contracts were issued on July 6. The letter which accompanied the contracts stated that Bonneville would "take steps to modify these agreements to conform them to the Council's Plan." BPA intends to begin proceedings on contract modifications by September 1.

Hickok told the Council at a July 7 meeting in Spokane that Bonneville intended to "negotiate" the agreements to comply with the plan.

"BPA still doesn't seem to understand our relationship," responded Council chairman Dan Evans. "We're not one of the supplicants at BPA's table."

"Negotiation' is not the appropriate term here," Evans continued. "We have put together what we think is a

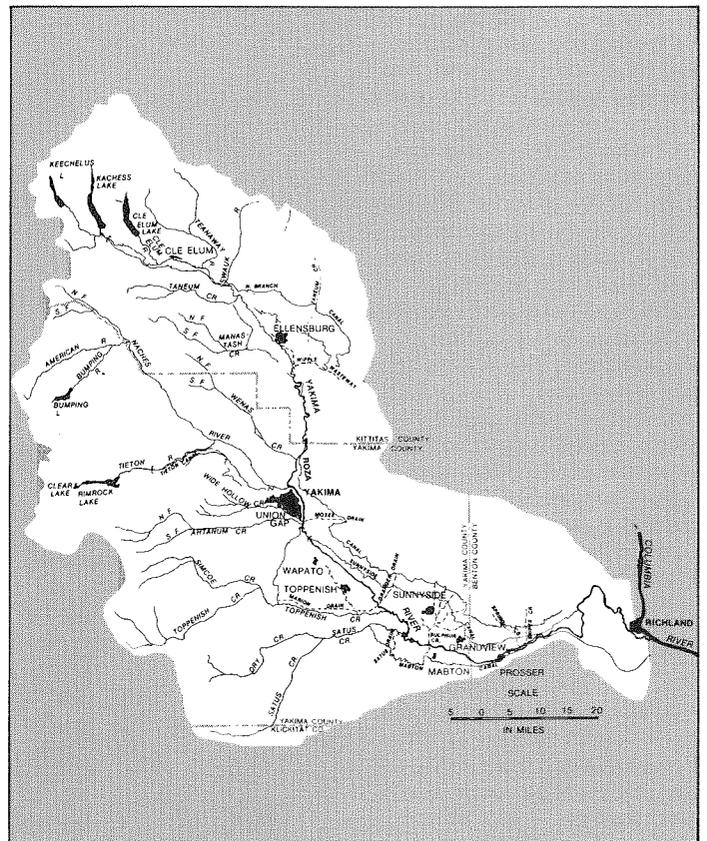
comprehensive plan, based on months of study and extensive public comment. It is BPA's charge to implement its programs consistent with that plan."

Council frustrated at BPA inaction on fish funding

Northwest Power Planning Council members expressed "absolute, utter frustration" with the Bonneville Power Administration's refusal to provide \$3 million in 1984 "seed money" for high priority fish passage facilities in the Yakima River Basin. In an Aug. 9-10 meeting in Yakima, the Council decided to ask BPA Administrator Peter Johnson to appear at a future meeting to explain BPA policy decisions which may thwart or seriously delay the enhancement effort.

At issue are measures in Section 900 of the Council's Columbia River Basin Fish and Wildlife Program which call for installation of ladders and screens to aid fish passage at water projects in the Yakima Basin. Most of the measures are characterized as "offsite enhancement" activities designed to compensate for fish losses caused by development and operation of hydroelectric power projects in the Columbia River system. Dale Evans of the National Marine Fisheries Services told the Council members that there is "no question" about the soundness of the biological objectives of those measures or about the appropriate physical means for solving the passage problems.

Sparks flew, however, over questions of funding of the passage facilities. Council members met in Yakima to hear views on draft legislation designed to provide the legal authority necessary to allow a Bonneville transfer of funds to the Bureau of Reclamation for



Funding fray: The Council and Bonneville are arguing over funding for fish passage facilities in the Yakima Basin (above).

construction of the screens and ladders.

"If all of us work together for passage of this legislation, BPA should, as a show of good faith, release sufficient funds immediately to design all projects covered under Section 900," argued William Yallup, Chairman of the Yakima Indian Nation's fish and wildlife committee.

Janet McLennan, assistant power manager at Bonneville, disagreed. It is Bonneville's policy, she said, not to fund design of projects until Congress has provided clear authorization for construction.

Larry Hittle, of the Pacific Northwest Utilities Conference Committee's fish and wildlife committee, told the Council he believes Bonneville has the authority to design the passage facilities prior to receiving authorization for full construction of the facilities. Al Wright, of the same committee, said PNUCC considers it reasonable for Bonneville to provide "seed money" for the facilities.

The entire package of

Yakima passage facilities would cost an estimated \$23 million. The "seed money" under discussion totals an estimated \$3 million to be spent in FY 1984 for design of top priority passage measures.

Under an implementation plan developed by an inter-agency team of representatives of fish and wildlife agencies, tribes and the Council, design and construction of the passage facilities would take four years to complete. A one-year delay in design would postpone completion of the passage project until 1988.

Such a delay in a system where fish declines already are substantial could increase significantly the chances of losing valuable stocks, says Mark Schneider, biologist on the Council's staff.

Wright said PNUCC opposes Bonneville funding of 100 percent of the passage facility costs, preferring "equitable cost-sharing" among various sources, including the Federal Treasury. Yallup urged the Council to seek a firm commitment from

Bonneville to fund any portion of the Yakima passage effort not funded by Congress. Bonneville has said it will consider paying up to about \$10 million of the costs, after authorizing legislation is passed.

In its July 29 comments on the Bonneville rate proposal, the Council said it views Bonneville's failure to plan for full funding of the Yakima passage facilities to be a violation of Bonneville's obligation to act consistently with the Council's program. It noted that if other passage funding becomes available after the rate decision, "Bonneville could, of course, reduce its spending plans accordingly or seek reimbursement for its expenditures."

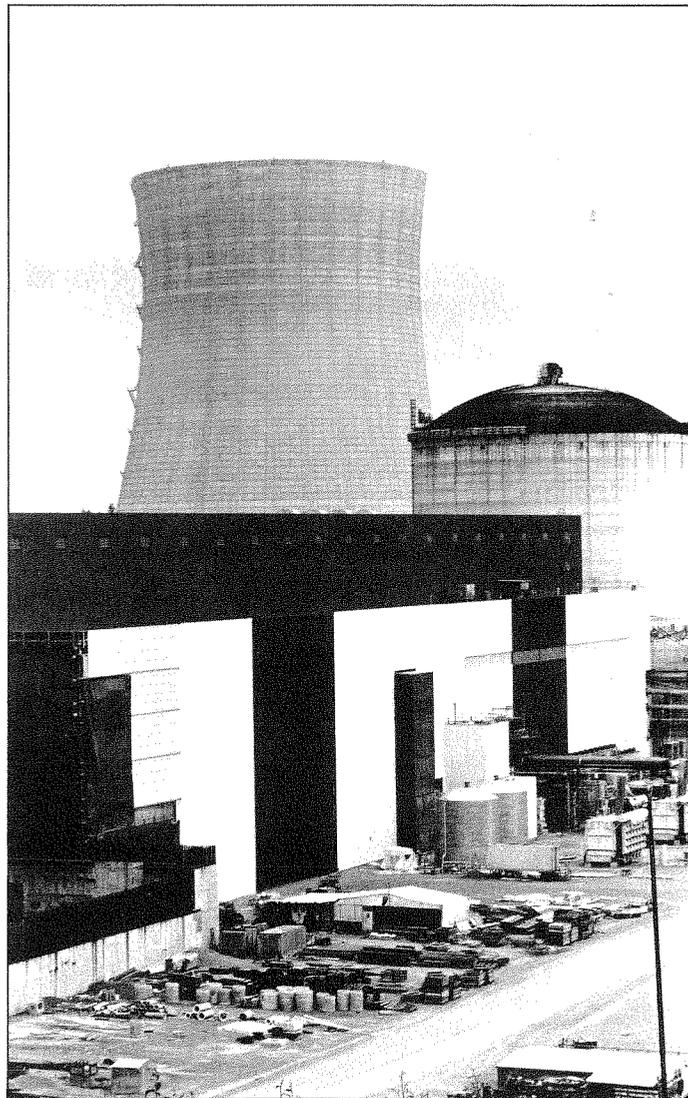
Representatives of irrigation districts expressed concern that they would be required to pay for operation and maintenance of the passage facilities. Bonneville has said that it will not pay for the operation and maintenance.

Council members will consider provisions for operation and maintenance costs and related issues when it decides whether to pursue the draft legislation at its September 6, 7 meeting in Seattle. McLennan and Bonneville Administrator Peter Johnson are expected to attend the same meeting to further discuss the Yakima passage facility.

Council to analyze cost-effectiveness of WPPSS plants

The Northwest Power Planning Council has directed its staff to conduct a detailed analysis of the effects of the WPPSS construction delays on the Council's Northwest Conservation and Electric Power Plan.

The Northwest Power Act of 1980 grandfathered WPPSS plants 1, 2, and 3 into the federal base system because they had already been acquired by



Cheap or expensive? The Council is beginning a study of the cost-effectiveness of WPPSS 1, 2, and 3 for meeting the region's energy needs.

the Bonneville Power Administration. As a result, the Council did not do a detailed analysis of the cost-effectiveness of these plants.

Because of recent developments at WPPSS and questions raised in the Congress, the Council will do a study that removes the WPPSS plants from the resources assumed to be part of the Bonneville system and will analyze the cost and appropriate schedule for the WPPSS plants compared to other resources. The Council's primary concern is the effects of various alternatives on the region's costs for additional generation and the expected impacts of these costs on the region's electric rates.

A major change has oc-

curred since the Council adopted its plan on April 27. In July, WPPSS decided to delay the construction of plant 3 for up to three years. This raises uncertainties about the plant's cost, when the power will be available, and whether it will be possible to successfully restart construction. It may also affect the schedule and cost of WPPSS plant 1.

In addition, Congress is considering legislation to provide a new mechanism to finance construction of the WPPSS plants (see story, p.4). Questions have been raised about the costs and rate impacts of various financing arrangements.

The Council is beginning an analysis of the issues surrounding WPPSS 1, 2, and 3

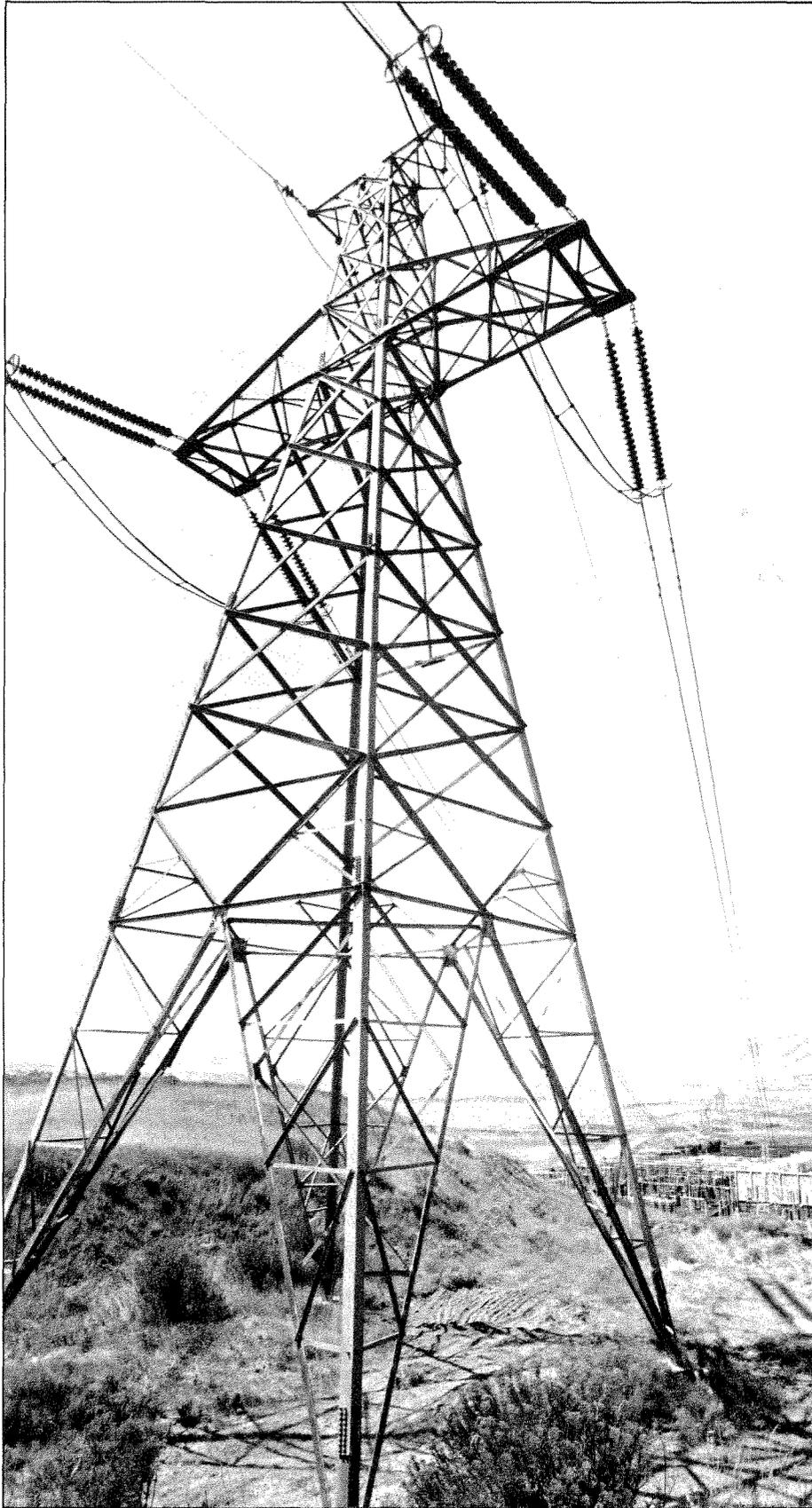
that will affect the regional power plan. The analysis will examine a number of alternative construction schedules for all three WPPSS plants, along with the cost-effectiveness of each plant in meeting the loads forecasted in each of the Council's four load cases. Of particular concern will be the effect on each plant's cost-effectiveness of the proposed construction delays and the cost of mothballing and restarting the plants. The staff will also examine the risks associated with mothballing nuclear plants.

As part of this analysis, the Council will examine efforts in other parts of the country to mothball nuclear plants and then restart construction activities. The survey will help the Council estimate the potential risks to the region of mothballing WPPSS 1 and 3.

The study will lead to a determination by the Council of the most cost-effective schedule for each WPPSS plant and the changes that may be needed in the Council's plan.

A process of public comment and discussion has been started to assist the Council in making this determination. This process will have to move quickly in order to be of use to the region's energy decision-makers.

The Council's plans for the WPPSS analysis will be discussed at the September 6, 7 meeting in Seattle. A schedule for additional public comment and Council analysis will also be presented at this meeting.



Shipping Power South

(From page 1)

billion in the process. And Californians have saved billions too in fuel they otherwise would have had to burn to generate the energy there.

Up to now, most of the energy sold to California by Northwest utilities has been seasonal surplus electricity, available during the spring run-off period on a non-firm, interruptible basis. When the reservoirs are filled to capacity from the run-off, the excess water must either be spilled or used to generate electricity. Surplus electricity produced during this period is sold inside and outside the Pacific Northwest at very low "spill" rates.

Now the Northwest has entered a period in which it is producing large amounts of electricity, surplus to its own needs, on a continuing basis. This surplus is expected to last several years. As a result, there is serious talk of entering into long-term contracts with California utilities to sell firm surplus energy.

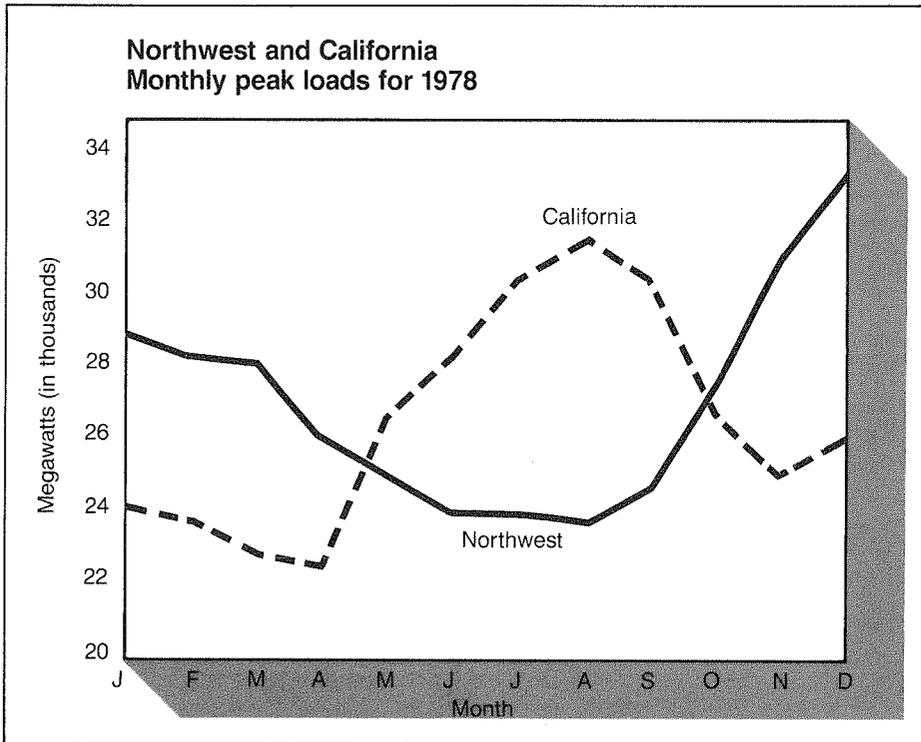
On the face of it, it seems logical and reasonable for the Northwest to sell its new surplus energy to California and just as logical for Californians to buy it.

The Northwest as a result of such a sale could utilize its system more efficiently, produce rate benefits for its consumers, and even help finance the region's proposed conservation programs. For Californians, a sale could mean reductions in the use of expensive gas and oil in their generation facilities, deferral of new generating facilities, and stabilization of consumer rates.

The U.S. General Accounting Office estimates that in 1980 Californians could have saved about 4 billion barrels of oil if the Northwest could have shipped excess power south of Oregon. Officials of the Sacramento Municipal Utility District have estimated it would be able to postpone and perhaps even eliminate the need to construct 500 megawatts of new combustion turbines and geothermal power plants if it could get more Northwest energy.

At the moment, however, movement of any additional energy from the Northwest south to California is impossible. There simply aren't enough transmission facilities in California to handle added energy flows. To receive any additional energy,

Some say the WPPSS plants, others say conservation, should form the basis of a sale.



Different climates in the Northwest and California lead to different patterns of electricity use. California uses most of its electricity in the spring and summer for air conditioning. The Northwest's energy use increases in the winter, when furnaces are turned on for space heating.

Californians must either build a new line or increase the capacity of the ones that exist.

Such solutions seem ultimately simple. But unfortunately expanding transmission facilities is only a small part of the problem. For although Californians and Northwesters may agree generally that moving more energy to California is a good idea, they differ — even within each region — on almost everything else.

Most Northwesters, for instance, agree that some surplus is likely but they question how big the surplus may be, how long it may last, and what energy resources should contribute to it. Would such a sale, for instance, require energy from the controversial WPPSS plants? Could it be supported entirely from regional conservation savings? Who should

sell the energy and how should it be packaged? Some even wonder if the surplus ought to be sold outside the region at all.

Californians seem no less divided. They worry about who in the Northwest is going to supply the energy, who in California is going to control the transmission system, and what utilities are going to share it. They're concerned about the cost of the energy. And in California too some wonder if it's really needed.

On top of it all, there are unresolved questions over just how, exactly, such an energy transfer should work. Who should handle it? Who, if anyone, should monitor it? When, where, and how is the general public going to be involved in the process?

The Northwest Power Planning Council in its recent Conservation and Electric Power Plan forecast that the Northwest would have a surplus of energy to sell at least through 1987, under its regional high-growth forecast, and until 2002 in its low-growth predictions.

The size of the surplus, the Council projected, could vary from year to year but would probably range from around 158 average megawatts in 1986 in a high-growth scenario up to about 3800 average megawatts in 1987 under a low-growth forecast. Both forecasts assume completion of a number of new generating facilities now under construction, including WPPSS plants 1, 2 and 3; coal-fired plants Colstrip 3 and 4 in Montana and Valmy 2 near Winnemucca, Nevada.

The Council has projected that conservation could add between 660 and 4790 average megawatts to the region's energy resources by the year 2002.

The Pacific Northwest Utilities Conference Committee (PNUCC), which represents Northwest public and private utilities, predicts that energy from all three WPPSS plants will be required if the Northwest is to commit itself to the sale of 1,500 megawatts to California — even with an aggressive conservation program.

PNUCC believes that if the WPPSS plants are not completed, regional surpluses will end between 1985 and 1990 and that conservation is too uncertain to support such a sale beyond that time. No one can now predict, PNUCC says, how much energy will be saved by conservation and no conservation energy should be committed to sales until the savings are known.

Others, however, believe that an aggressive conservation program could support a surplus sale, without using energy from the three WPPSS plants.

"If we are careful," says Mark Reis, executive director of the Northwest Conservation Act Coalition, "the Northwest can develop its most cost-effective resource — conservation — well ahead of schedule and sell those resources to California at a price sufficient to pay the full cost of a conservation program."

The Coalition opposes the development of either nuclear or coal-fired power plants in the Northwest to serve customers outside the region, contending that other areas should not be permitted to export their environmental damage to the Northwest.

Some would not sell surplus energy to California at all. They would cut back energy production in the Northwest thus reducing environmental impacts, use any surplus to eliminate the need for addi-

tional generating facilities, or else sell the surplus — particularly non-firm interruptible energy — to Northwest consumers.

The Conservation Act Coalition, for instance, has proposed using the surplus in the region to defer, cancel, or mothball construction of some WPPSS plants, to retire the Hanford N-Reactor, and to increase water flows for fish and wildlife protection. The group has urged a detailed cost-effectiveness analysis of such alternatives before deciding any of the surplus issues.

Questions about how the Northwest's energy should be sold to California and by whom have also sparked discussion.

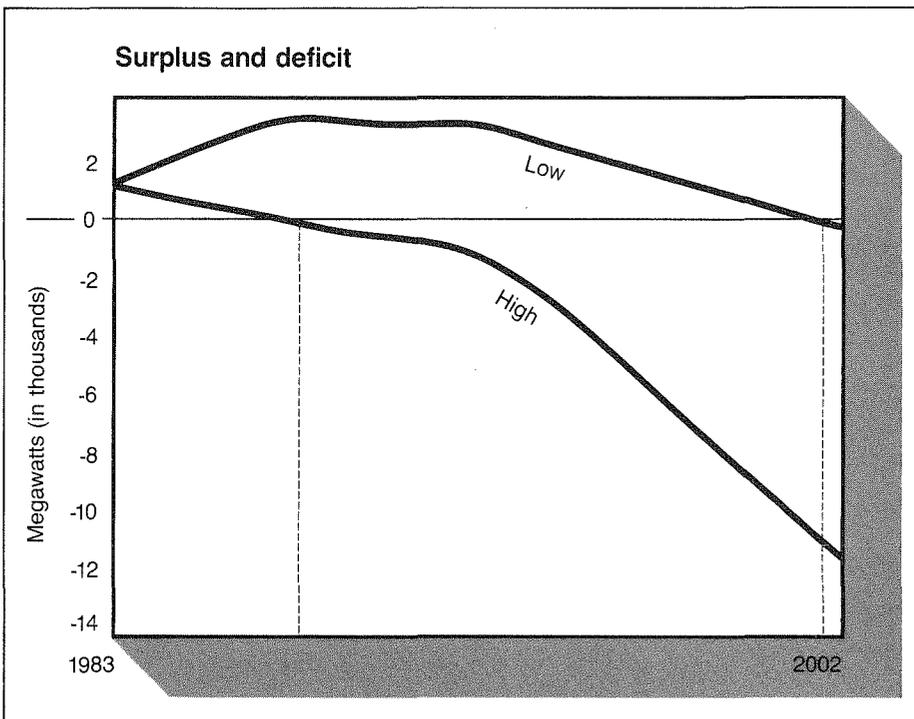
At the moment, there seems to be general — but not total — agreement that any surplus should be sold through some intermediate organization formed by Northwest utilities for that particular purpose. No single utility, with the possible exception of BPA, has enough energy resources to handle such a sale by itself.

Under existing federal laws, the BPA is limited in how it can sell energy outside the Northwest. The BPA cannot, for instance, enter into any long term guarantees of energy delivery. It must, by law, reserve a right to cut off such power sales on 60 days' notice in order to protect supplies in the Northwest.

Other utilities do not face the same restraints. They can, and have, entered into long term agreements already. In fact, more than half of the largely non-firm energy shipped from the Northwest to California over existing lines since 1968 was from Northwest private and public utilities. If, however, these utilities sell hydropower to California and purchase replacement hydropower from BPA, BPA must reserve the same right to cut off the replacement sales on 60 days' notice.

The BPA likewise must give public utilities outside the state first preference on any of its energy offerings. Other utilities, again, face no such restraints. They can sell their surplus energy to any agency.

Because utilities face no restraints on the length of their contracts and are not bound by public preference provisions that apply to BPA, some suggest that all BPA energy



The current electricity surplus would last until 2002 in the Northwest Power Planning Council's low growth forecast. If the region grows to the Council's high forecast, the surplus would end in 1988. Increasing the pace of conservation would extend the surplus. Construction delays for WPPSS plants 1, 2, and 3 would end the surplus more quickly.

involved in a California sale be sold to California through utilities. Such an arrangement is essential if any power sales are to be made at all, they believe.

Public utilities in California and some conservation groups, however, strongly oppose such "laundering" of surplus energy from BPA claiming that public preference provisions should be adhered to.

Also facing Northwest utilities are questions about possible anti-trust violations should they join in selling energy in a single package. The utilities, however, generally believe that such problems can be avoided by a number of measures including open participation by all buyers and sellers, permitting utilities to enter into bilateral agreements, and by determining a total sales price and power quantities based on individual decisions by the selling utilities.

Not everyone subscribes to the idea of a single, organized transaction, however. James W. Durham, senior vice president

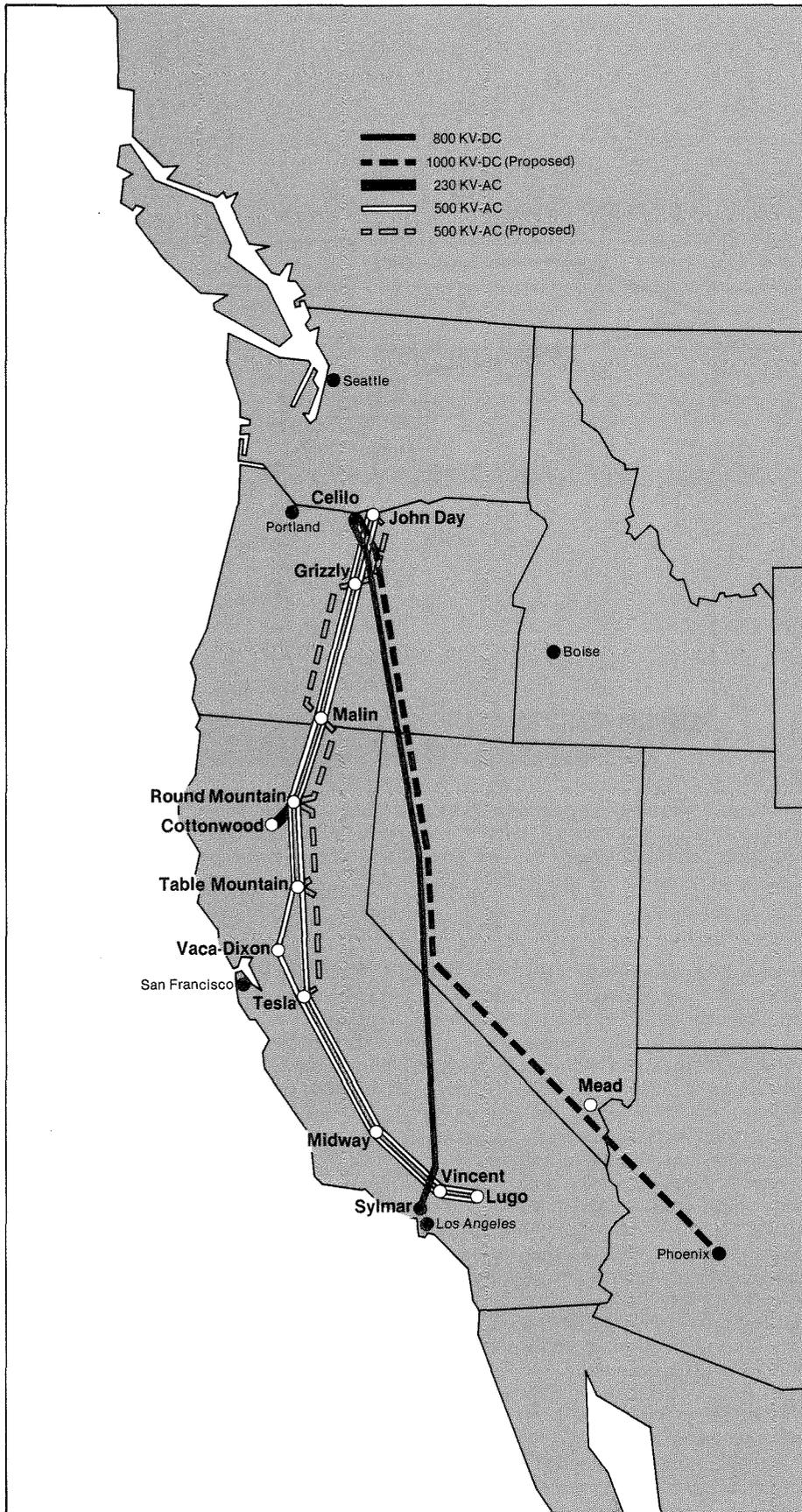
of Portland General Electric, for instance, has expressed doubt that a common agreement will prove practical.

Historically, he says, energy transactions have been negotiated on a mutually beneficial two-party basis.

In California, transmission facilities pose the most serious problem for any Northwest sale. In the Northwest, all energy would flow south toward California on BPA lines which are managed as a common carrier, thus open to all. South of the Oregon border, however, energy must now be moved over three lines controlled largely by private utilities with the energy allocated generally only to those who shared in construction of the line.

Pacific Gas and Electric and Southern California Edison Company, the nation's largest investor-owned electric utilities,

The Pacific Intertie



are entitled to 60 percent of the electricity shipped over the lines. Los Angeles, Burbank, Pasadena and Glendale as a group receive 21 percent. The rest is shared by San Diego Gas & Electric Company, the California Department of Water Resources and the Western Area Power Administration.

The allocation of energy from the lines is now under challenge. The California Department of Water Resources has filed anti-trust charges against Pacific Gas and Electric contending that the utility is maintaining a monopoly. California public utilities, at the same time, are seeking to void or modify power allotments on the lines in proceedings before the Federal Energy Regulatory Commission. None of the cases seems near resolution at the moment.

When the three intertie lines — two alternating-current lines and a single direct-current line — began transmitting energy in 1968 and 1970, they could handle 3400 megawatts. Improvements since have increased their capacity to 4356 megawatts and an \$80 million upgrade now underway will increase it to 4750 megawatts.

Several proposals have been made for enlarging capacity even more. Some owners of the existing intertie have proposed upgrading the systems to handle more Northwest energy. At the moment, however, the utilities as a group are focusing attention on construction of a fourth new intertie. An upgrade of existing lines, it appears, would not handle all of the Northwest surplus and might also create serious technical imbalances in the rest of the California system.

Merrill Schultz, director of the Intercompany Pool, a private utility group, indicates that a utility committee has been directed to study several options including a new coastal alternating-current line, a new direct-current line to Los Angeles, or one of two lines from southern Idaho to either the San Francisco Bay area or to Los Angeles.

There seems to be general agreement that energy shipped over any new line would be parcelled out to anyone who wants to buy into the line, even if the utility cannot connect directly to the line.

Being considered is an arrangement whereby a utility, unable to connect, would be able to trade its allotment for

more convenient energy flowing over existing intertie lines.

Some owners of the existing intertie lines have objected to any reparcelling of energy on the lines. But Northwest utilities have insisted that all California utilities must receive access to any surplus power shipped into the state.

Financing the construction of any new lines has also raised questions. California private utilities say that while stockholders must fund the construction, ratepayers get most of the benefits.

Under present California regulations, stockholders receive only 2 percent of any benefits from a transmission line while ratepayers get 98 percent. Utilities have been asking that stockholders be given a larger share. In Oregon, Portland General Electric stockholders, for instance, get 20 percent of net revenue benefits on power sales to California and ratepayers earn 80 percent.

Cost of the Northwest energy likewise rouses continuing discussion. Officials of California utilities stress that they must buy the least costly generation with which to serve their customers and that the price of Northwest energy, if it became too high, could become an impediment to power sales.

At present, with the limited intertie capacity, California has been buying non-firm surplus power from the Northwest at extremely low rates. Because the existing transmission doorway into California is so small, Northwest utilities with energy to sell have been standing at the border underbidding each other in an effort to get their power through the limited California entry.

In June, 1982, for instance, BPA sold power for an average price of 0.57 cents a kilowatt-hour to California utilities who used it to offset oil-fired electricity which would have cost them as much as 6 cents a kilowatt-hour to generate.

Daniel W. Meek, former legal counsel to the California Energy Commission and now on the staff of Oregon Representative Jim Weaver, believes that expansion of the California transmission system will eliminate the heavy price-cutting competition between Northwest utilities and, in the

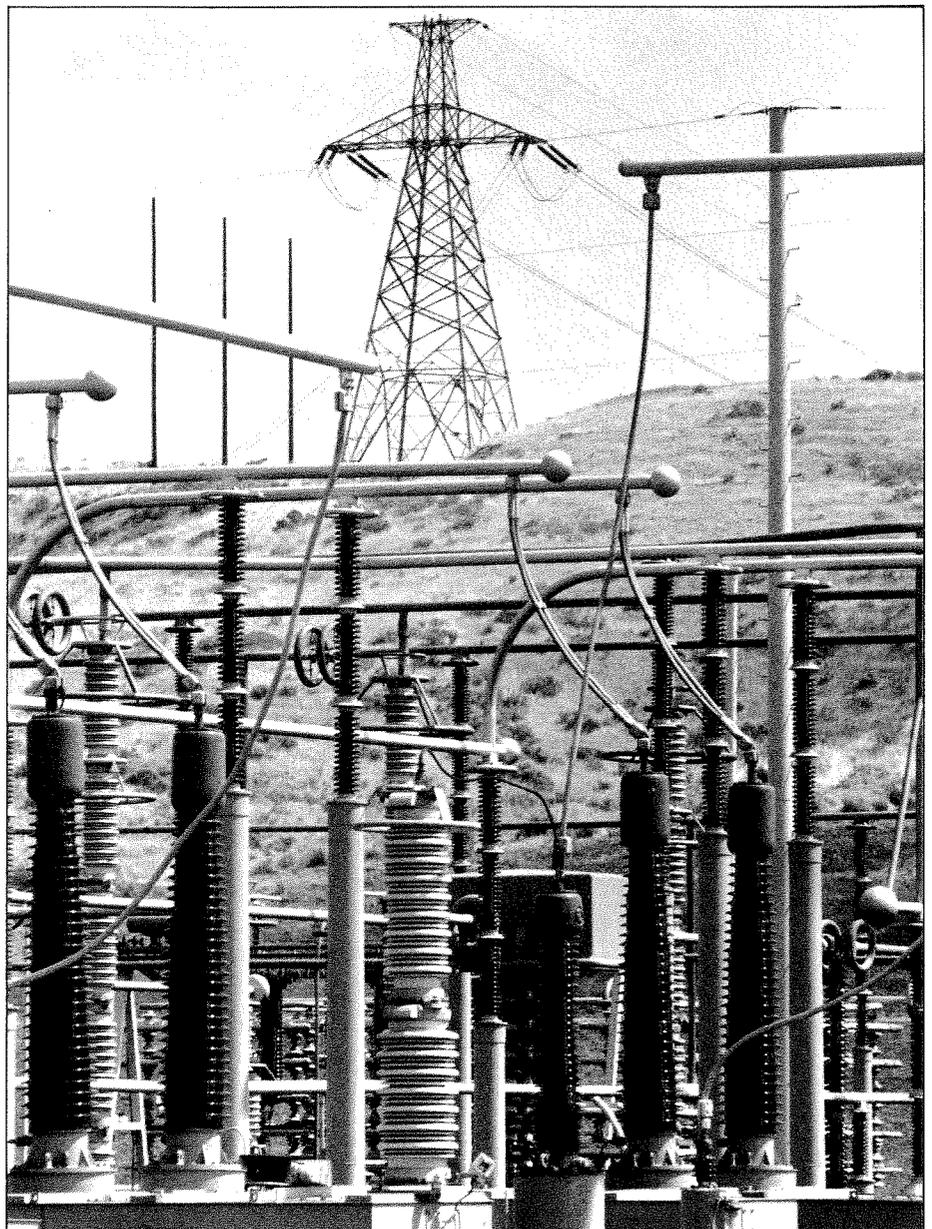
end, deprive California utilities of their present bargain purchases.

Once California's energy doorway is enlarged, the utilities there won't be able to force Northwest utilities to undercut each other to get their electricity into the state. There will be room, then, for everyone's energy and the heavy competitive elbow-

ing taking place in the present narrow entry will cease.

Some California utility officials would like to see the heavy competition continue. They believe they serve their customers best when they buy the cheapest energy available.

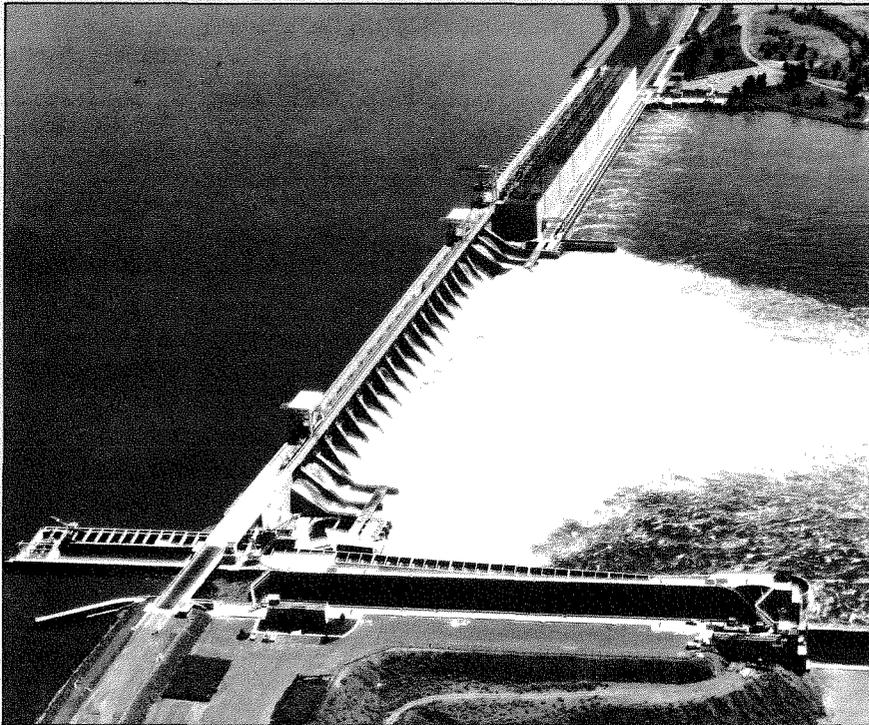
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Kilowatt conversion: This switching yard near John Day Dam in Oregon converts electricity from alternating-current to direct-current for shipment over the intertie to Los Angeles.

Ralph Perry photo

Sell or spill: marketing seasonal non-firm energy



While most public discussion now centers on a proposed long-term sale of Northwest firm power to California, there are also efforts underway to stimulate the sale of non-firm energy within the Northwest itself.

Almost every year during the region's spring run-off season, more water flows into the hydro system's reservoirs than the reservoirs have capacity to store. This excess water is either used to generate energy for sale — inside or outside the Pacific Northwest — or spilled over the dams if it cannot be sold. Because the amount of energy available cannot be firmly predicted — it is subject wholly to the whims of nature — it is marketed as interruptible, non-firm energy at relatively low rates, around 0.9 cent per kilowatt-hour.

In the past, much of this non-firm power was sold to California. Since 1968, Californians have bought some 19,240 average megawatts of energy,

mostly non-firm surplus, from BPA and other Northwest utilities.

Some of the non-firm energy has been also sold to direct service industries in the Northwest. These industries, mostly aluminum companies, have been buying about 900 megawatts of this energy, at full operation, each year relying on it for about 25 percent of their load requirements.

The Northwest Power Planning Council, in its regional power plan, encourages increased Northwest use of the region's non-firm power resources. The plan calls for BPA to develop new and larger markets for this low-cost interruptible energy among irrigators, operators of fossil-fueled industrial boilers, aluminum plants, and others.

Most observers of the regional energy scene endorse an expanded use of the non-firm resource. But some express concern about the impact expanded non-firm sales will have on the efficiency of the region's use of the

electricity it consumes, and on power rates being charged regular power consumers.

Utilities, for instance, generally endorse the sale of non-firm surplus as an energy supplement for operators of fossil-fueled industrial boilers. Sales of such cheap energy, they feel, would not supplant sales of more expensive firm energy, and thus would not impact their general energy revenues.

The sale of less-expensive, non-firm power to irrigators and aluminum plants, on the other hand, causes them concern. As utilities see it, if non-firm sales displace firm sales — if irrigators or aluminum industries are able to cut down on what they spend for firm power by buying cheaper non-firm power — the utilities believe that consumers might have to make up the difference in revenues by paying higher rates.

Environmentalists join in the concern, fearing that sales of non-firm energy would also tend to embed waste in the already wasteful Northwest system.

As they see it, agricultural or industrial users of such inexpensive energy would tend to continue their inefficient uses of energy rather than correcting their over-use and inefficiency problems.

The BPA notes that recent power-price increases have pushed Northwest aluminum plants to the "edge of profitability" and that lower-cost, non-firm energy has helped keep the plants competitive. The BPA says it expects to gross about \$30 million from short-term, non-firm sales to that industry.

The possibility of converting some of the region's firm surplus power — that energy being generated for what would be normal power uses — to non-firm energy is also being discussed. The Council has ordered a study over the next two years of the possibility of allowing BPA to convert some of its firm power to non-firm uses. Details of the proposal have not yet been defined.

Californians point out that Northwest energy will not solve their energy problems.

(From page 13)

Most, on the other hand, appear ready to pay more for Northwest energy (it would still be cheaper than oil and gas-fired energy) if they can be assured of consistent deliveries of larger amounts for longer periods.

The source of Northwest surplus energy has caused some concern among California utilities. Californians have been adamant in their rejection of any energy from WPPSS plants 4 and 5. If California purchases tend to stabilize the WPPSS situation, fine. But Californians have no intention of bailing WPPSS out or becoming part of WPPSS's problems.

Californians are quick to point out that

Northwest energy is not going to solve all of California's energy problems and that, in fact, the Northwest contribution will be relatively small.

California has a capacity statewide of 42,000 megawatts and a projected need for another 13,000 megawatts by 1990. A Northwest contribution will have little significance for California's power situation. The addition will enable California to cut back on the use of expensive gas and oil and help stabilize its rates, but it will not enable California utilities to dismantle any generation facilities or stop their continuing search for new and more economical energy sources.

California utilities stress that they al-

ready have sufficient generating capacity to meet their present needs and are planning for enough new facilities to meet their future ones — without relying on a Northwest resource.

Californians also point out that, comparatively, Californians consume far less energy than Northwesterners. The Northwest has been using about 15,500 average megawatts of energy a year while California, with nearly three times the population, has been using only 18,700 average megawatts.

As Ralph Cavanagh, staff attorney at the Natural Resources Defense Council, sees it, Californians have already cut back on use of electrical energy while the Northwest continues to waste it.

"The Northwest leads the world in its inefficient use of energy," Cavanagh says. "Conservation is more accessible and cheaper there than anywhere else in the world."

Energy agencies on both sides of the Oregon-California border are in the process now of trying to work out general principles for an energy agreement which will make a transfer of energy possible and to define the roles various agencies should play in the process.

In general, utilities hope to start delivering energy by July 1, 1984, envisioning an agreement involving the transfer of 1500 average megawatts of energy for a period of 15 years with a five-year pull-back provision available to utilities on both sides of the border.

Under the pull-back provision, Northwest utilities would be able to withdraw on five years' notice if their own loads grew faster than predicted or if they were unable, as the result of circumstances beyond their control, to deliver the promised energy.

California utilities would be able to pull out of the agreement if their loads failed to grow as predicted or if alternative resources became available to them at costs significantly below their forecasts.

Any agreement would also have to comply with all existing government regulations, be consistent with anti-trust laws, and recognize any energy contracts still in effect.



Selling conservation: A huge conservation resource exists in the Pacific Northwest that could be sold to California.

Agencies are also formulating roles they expect to play in the agreement. The Northwest Power Planning Council, for example, expects to review any proposed additional resources that would be needed to support the California sale in order to ensure that the resource will be consistent with the Council's regional power plan.

Charles Collins, a Washington state member of the Council, says the Council will consult with Northwest utilities throughout the agreement process and will attend meetings between California and Northwest utilities.

He stresses, however, that the Council will not be a participant in the agreement process nor become involved in any of the purely commercial aspects of any sale.

"We will focus only on those aspects of the sale which might impact the plan," he says. "We will look at the call-back provisions, the total amount of the sale in terms of the facilities required to support it, and the basic forecasts and resource assessments that will determine how much power is available."



The public in the Northwest will have an opportunity to comment on those aspects of the agreement, he says. However, the Council will not hold hearings on the purely commercial components of the agreement such as the price being paid for the power, who will provide it, transmission lines, or terms and conditions of the sale.

In California, the California Energy Commission has been working in what Charles Imbrecht, chairman, describes as a "quiet and deliberate fashion" to seek political support for a recognition of the need for a new power arrangement between the Northwest and California.

"It's hard to say categorically that an agreement will be reached, but there is a right mix politically for it to happen now," he says. "Everybody I've talked to who is knowledgeable in either region acknowledges the intelligence of such an agreement. It really comes down to the extent to which people are willing to operate in a new sense of good faith to produce a solution."

Frank Farrah illustration

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