



## Northwest Energy Crisis?

# Is There a Northwest Energy Crisis?

## We've just won a battle; now it's time to win the war

ly equivalent to the amount of power that Portland and Salem consume together.

This past year, we saw wholesale electricity prices soar to \$250 a MWh, about ten times what they had been the year before. Now prices are down to around \$30—at least for now. This may lead some to think the crisis is over. That's not our view

region also incurred environmental costs because of the operation of emergency diesel generation. Throughout the Northwest, residents, businesses, farms, and industries have heroically curtailed electricity use.

In short, things are not normal. The crisis is not over. What we in the Northwest need to do now is focus on long-term solutions. The Northwest must address the following major policy issues as we map out our energy future.

Despite a near-record drought and the inability to obtain normal winter backup power from California, the Northwest's lights stayed on this year. And, despite spiraling electricity market prices earlier this year, wholesale electricity rate increases didn't hit triple-digit figures as we had feared. It might almost appear as if the energy crisis is over and things are getting back to normal. Should we in the Northwest breathe a sigh of relief? Well, perhaps, but let's make it a short one.

The fact is that even though we escaped energy deficits this winter, we did so only because we as a region took some extraordi-

nary actions that had some serious consequences. What got us through most of 2001 was a short-term strategy which isn't sustainable in the long term.

The fundamental fact is that the region's load (demand for power) still exceeds supply and is likely to do so for some time. According to data from the Northwest Power Planning Council, if we set aside temporary generators—which currently produce energy above market prices—and assume that all of the plants that are currently under construction will be put into operation, then the Northwest will still need another 1,000 megawatts by 2003. That's rough-

by Steve Wright, Acting Administrator Bonneville Power Administration

at the Bonneville Power Administration. All indications point to increased volatility in the electricity market unless and until we put an energy infrastructure into place that brings supply and demand into balance.

A major reason prices are down in the West is because BPA took 2,000 megawatts out of the market with an immense load reduction effort. We are still curtailing loads. Aluminum smelters and other manufacturing operations are still shut down. Workers are still idle. Water that would otherwise have been spilled at dams to help fish passage instead had to be run through generators to meet electricity needs. The

First, as a region, we need to implement a long-term strategy to build an energy infrastructure that will ensure low-cost and reliable energy while leaving as light a footprint on our environment as possible. There are four major components to this infrastructure: new generation, demand-side management, transmission, and gas pipeline and storage capacity.

**New generation:** The region must have adequate new generation to meet the needs of a growing population and a growing economy. We need low-cost kilowatt-hours added to our system from a variety of sources, including gas-fired generation, renewable resources and investments in the existing hydropower system. Gas-fired generation will likely play the largest role in new development. Among renewable resources, wind power, in particular, looks quite promising as a power source for the Northwest. But it will take a diversified portfolio to meet all of our needs.

**Demand-side management:** We cannot turn to generation

alone. The Northwest must refocus on demand-side management—using energy efficiently. Support for energy conservation here and elsewhere has tended to ebb and flow depending on the market price of power. What we need are sustainable conservation programs that are maintained through high and low market prices. Long-term investments in energy efficiency will provide the best shock absorber against future resource uncertainties and market fluctuations. During periods of

price volatility, conservation keeps on producing. Utilities and consumers avoid expensive market purchases and high electricity rates because of these savings.

**Transmission:** The Northwest's high-voltage transmission system is stretched to the limit. Other than one interregional transmission line, no major new transmission line has been built in the Northwest since 1987. Yet, as dozens of developers line up to provide power for the future, we must be able to deliver that

power where it's needed. Because it is difficult to site and build, transmission is probably the critical path measure to assure we have adequate electricity supplies. An Infrastructure Technical Review Committee, made up of regional transmission experts, was set up to review BPA's plans for transmission and ensure that it designs programs and prioritizes projects in the most effective way. In its first report, released in September, the group noted that the need to upgrade portions of

the Northwest grid is immediate, and a critical first step is securing additional borrowing authority for BPA so it can invest in long-term improvements.

**Gas pipeline and storage capacity:**

While hydropower will remain the basis of our region's electricity system, it is not likely to be a substantial component in new development.

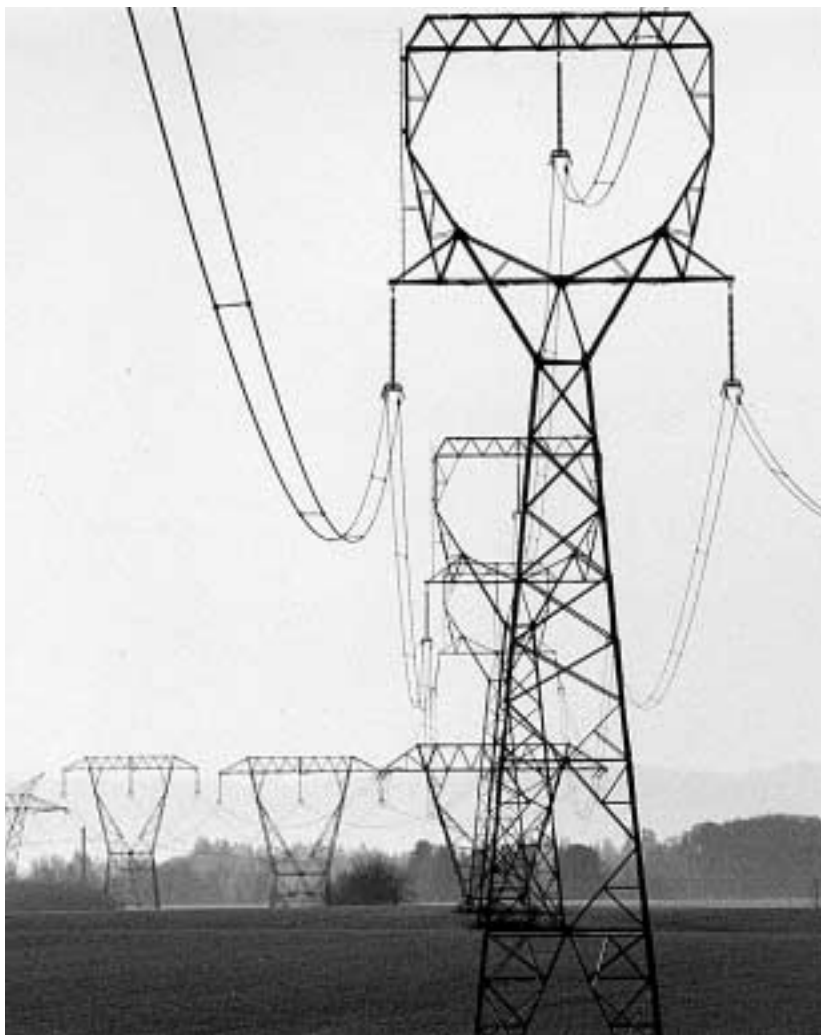
The generation of the future that we will likely rely on most will be combustion turbines, which are fueled by natural gas to produce electricity. They have advantages in that they can be sited and built relatively quickly and have lower emissions relative to other thermal

resources. We must ensure that we have the gas pipeline capacity and storage to provide the fuel for these resources.

As we develop this infrastructure, we need simultaneously to move forward aggressively with projects to protect and enhance our fish. These investments improve our environment and ultimately assure that the capability of the existing low-cost hydro system is maintained. The Federal Caucus, a group of federal agencies that serves the region, along with states, and tribes, has produced a plan to implement the Biological Opinion that governs recovery of endangered salmon and steelhead in the Columbia Basin. There have been years of study and debate behind this plan, which builds on many things that are already underway.

Implementation will be difficult, though, and will take a concerted effort throughout the region. Failure to save our endangered fish is more than an environmental issue. If the recovery effort is turned over to a so-called God Squad or the courts, it is out of the hands of the region. We could see impacts that would further degrade the federal hydro system capability, impacts that will exacerbate our supply problems.

Another key policy issue is determining the ultimate shape and scope of the regional transmission system. The Bush Administration and the Federal Energy Regulatory Commission strongly support the formation of independent regional transmission organizations, known as RTOs, throughout the nation. We in the Northwest have been working on "RTO West" for at least two years. RTOs promise to improve overall system reliability by having a single, independent entity manage the region's trans-



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mission transactions, as opposed to a fragmented approach. We expect that an RTO, if properly formed, could ultimately reduce costs by eliminating "pancaked" rates, which occur when power is transmitted over multiple connecting lines and the sender is charged by each individual owner.

Participants in RTO West cover all or part of seven states and include BPA, the Northwest's investor owned utilities, Sierra Pacific in Nevada, and B.C. Hydro in Canada. Each transmission owner would continue to own and maintain its own facilities and lines but would hand over real-time operation, such as sales and scheduling, to RTO West.

Although the region's transmission owners are well along in developing a structure and bylaws for RTO West, there are several critical decisions to be made that will determine the impact of RTO formation on consumers. The Northwest needs to pay attention to this issue because it has far-reaching and long-lasting implications for all electricity users in the region.

Finally, still another critical policy issue is determining who is responsible for serving the region's load. The role BPA plays in this region, its future and its

management, will be an integral part of this discussion.

The 1980 vision for BPA, under the Northwest Power Act, was that BPA would be a wholesale resource provider serving the needs of the region's retail utilities and direct service industries. Then, in 1996, the region conducted a Comprehensive Review of the Northwest

energy system. The long-term vision for BPA that came out of that review was for BPA to be a niche marketer and not acquire resources to meet load growth. It was envisioned that, as a result of wholesale deregulation, a number of independent marketers would provide the resources of the future. However, none of these new providers so far has any responsibility to serve load.

Today, new resources are being developed independently in this region. But there is no clarity about who has long-term responsibility to serve load and, consequently, no guarantee that the power from these resources will be sold in the region. Many customers are counting on BPA to serve their load, not only for the next five years, but also beyond, and it looks like BPA might not have the resources for this load. However, because of the risks in today's erratic market, BPA cannot buy resources for periods longer than we have contracts for because it would pose too high a financial risk. The region needs to resolve the issue of who is obligated to serve load.

The challenges I have touched on are only a few of the issues that must be addressed if we are going to have a vibrant energy future for this region, for

ours is an extremely complex system. But I believe they are the key issues. I think there is a tremendous challenge ahead, but I am not pessimistic because I have seen what the Northwest can accomplish when its energy players work together.

At the very

cleanest, cheapest renewable energy in the nation. And, I believe that it can also provide safe spawning grounds and passage for our fish. These are benefits of incalculable value that we must preserve.

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least, we know what the challenges are, and we know what we need to do. Right now, the task is to make a concerted and coordinated regional push at all levels to make the infrastructure investments that will ensure long-term reliability.

I feel a sense of urgency. It is imperative that we deal with all of these issues if we are to preserve the benefits of a tremendous resource. The Columbia River, along with its tributaries, is the crown jewel of the Northwest. It is the highway for moving goods from our interior to our ports and back. It is a recreational wonderland that attracts people from all over the world. Its waters have turned arid land into a cornucopia of crops. It provides the



Steve Wright was appointed Acting Administrator of the Bonneville Power Administration in November of 2000.