

Legislative Council
Energy, Environment and Technology Interim Committee
House Majority Caucus Room
Statehouse
June 12 and 13, 2006

The meeting was called to order at 9:04 a.m. by Cochairman Representative Eskridge. Committee members present were Senator Curt McKenzie, Senator Patti Anne Lodge, Senator Russ Fulcher, Senator Kate Kelly, Representative Maxine Bell, Representative Bert Stevenson, Representative Ken Andrus, Representative Elaine Smith. Ad hoc members present were Representative Wendy Jaquet, Representative Mark Snodgrass. Senator Mike Jorgenson, Senator Elliot Werk, Representative Eric Anderson and Representative Bob Nonini were absent and excused. Representative Smith was absent and excused from the June 13 meeting. Legislative Services Office staff present were Mike Nugent, Paige Alan Parker and Toni Hobbs.

Others present at the meeting were Ken Miller, NW Energy Coalition; Russ Hendricks, Farm Bureau; John Williams, Bonneville Power Administration (BPA); Gene Fadness, Marsha Smith, Paul Kjellander, Public Utilities Commission (PUC); Representative Sharon Block, District 24; Jon Dietrich and Lindsay Youtz, Department of Commerce and Labor; Pat Barclay, Idaho Council on Industry and the Environment (ICIE); Maria Barratt, Division of Financial Management (DFM); Brenda Tominaga, Idaho Irrigation Pumpers Association/Idaho Ground Water Association; Russell Westerberg, PacifiCorp; Representative Steve Smylie, District 15; Gary Gould, Shoshone-Bannock Tribes; Glen Pond, Rocky Mountain Power/PacifiCorp; Bree Wildman, Congressman Otter's Office; Arne Olson, Energy and Environmental Economics; Courtney Washburn, Idaho Conservation League; Roy Eiguren, Givens Pursley; Rich Hahn, Idaho Power; Bob Hoppie, Idaho Energy Division; Peter Richardson, Industrial Customers of Idaho Power; Wally Gibson, Jeff King and Tom Eckman, NW Power and Conservation Council; Kelci Karl, Idaho Association of Counties; Andrea Mihm, Sullivan and Reberger; Julie Pence; Stan Boyd, Ridgeline Energy; Ray Houston, Legislative Services Office; Mike Louis, Energy Policy Institute/Center for Advanced Energy Systems (CAES) and Rob Branch, KBOI News.

After opening remarks and a discussion of the consultants who submitted proposals, **Senator Gannon** moved that the committee pick the company Energy and Environmental Economics (E3), a partnership based in San Francisco that specializes in serving the needs of electric and gas utilities, end-users and government agencies as the consultant for the committee. **Senator Kelly** seconded the motion and it was approved unanimously by voice vote.

Representative Eskridge explained that he chose E3 because they seemed willing to work with the committee to provide guidance and to help the committee move in the right direction. It also seemed that E3 was more able to adapt their fees depending on how the committee decides to use

their services. **Representative Eskridge** said it was his impression that the committee can narrow the scope of how the consultant is used and their fees will be adjusted as needed. **Senator McKenzie** agreed.

Representative Jaquet commented that she has heard from constituents that the public is afraid they will not be included in the process and that she would like to have a discussion at some point regarding how much public participation will be involved. **Representative Eskridge** said there will be public participation but the committee will decide that at a later date after they have a better idea of what direction they are going.

Mr. Arne Olson from E3 explained that they work on an hourly basis and their proposal states a “not to exceed” budget amount. He said this is in the proposal, not to protect E3, but to protect the committee from having to spend too much.

Senator McKenzie stated that each group added something different to the mix and in his opinion, any of them would have done a good job. He said that E3's proposal was just a little more flexible.

Mr. Olson was introduced to review their presentation from the last meeting. **Mr. Olson** began with an explanation of the current electricity industry landscape. He stated that:

- C Idaho’s electricity supply is still under the control of regulated utilities (Avista, Idaho Power, PacifiCorp) or BPA
- C A single regional grid means some of Idaho’s energy comes from surrounding states

Mr. Olson said that this above point is an issue for the committee to deal with in terms of a recommendation of how much of the energy consumed in Idaho should be produced in Idaho or is it better for it to be produced in other states. If it is produced in other states, the question is how to get transmission built to bring that energy to Idaho.

- C Deregulation pressure has largely fizzled
- C Future developments:
 - C Utility integrated resource plans
 - C Newer technologies such as wind, geothermal, coal gasification

Some of the challenges Idaho faces include:

- C Meeting energy needs of a growing population
 - C Merchant power plants
 - C State vs. local siting authority
- C Centrally vs. locally assessed
- C Best use of water: aquifer recharge, hydropower, or thermal power plant cooling
- C PURPA contracts vs. IRPs: How should utilities procure renewables?

Mr. Olson stated that deciding the best way for the state to acquire renewable resources is another area of importance for the committee.

With regard to what other states are doing, **Mr. Olson** said that there is a wide variety of

positions including energy facility siting, state energy/building codes, integrated resource planning standards, ratemaking standards, renewable portfolio standards, public purpose or “Systems Benefit” charges and state power authorities.

In developing a state energy plan it is important to include major players such as electric and gas utilities, gas pipeline companies, petroleum suppliers and refiners, Idaho PUC/other state agencies as well as energy consumers in the process. **Mr. Olson** said the role of the Legislature is to establish the statutory framework that guides the actions of these players, i.e., the rules of the game.

It is the opinion of E3 that:

- C The players need economic analysis, modeling, etc. to support decisions
- C The Legislature needs a good understanding of the playing field:
 - C Who the players are
 - C Current infrastructure
 - C Technology developments
 - C Federal statutory developments
- C The Legislature does not need detailed modeling of energy supply options

Mr. Olson said it was their understanding that the legislature needs a good understanding of how the system works, who the players are, what the current infrastructure looks like, how that infrastructure is planned and how it works. The legislature also needs to know what the technology landscape is and the state and federal statutory framework. With this information, E3 believes the committee can establish general preferences.

Their project scope and deliverables include:

- C E3 will assist in the legislative and public process if needed
- C E3 will prepare initial and near-final draft of the report
- C E3 will develop and the committee will choose from a menu of policy options
- C E3 will develop loads and resource descriptions, tables and forecasts
- C Committee will define Idaho objectives and constraints
- C Review legislative participation in state energy processes from other jurisdictions

The timeline for this would run from June 2006 to February 2007. He stated that this timeline is flexible and that it was just their interpretation of what the committee was asking for.

Mr. Olson said from the information they received it looked like the committee wanted to look at the existing system and make sure that it is working properly or if there are areas that could be improved. He said it was not their perception that there was not a lot of momentum for a major restructuring.

Regarding the public process, **Mr. Olson** said it did not look like there was a lot of time before January for a large grass roots process. In their opinion to get this done by January, it needs to be a top down process where the committee and stakeholders develop a first draft and then go out to the public for feedback before finalizing that draft.

Mr. Olson said it would be helpful to E3 to facilitate a discussion of what the policy objectives are for the committee for later use. Then they would develop a basic set of information regarding how the existing system looks in Idaho. This would include a profile of energy uses, existing infrastructure, the existing players, current events and so on. The next task would be to develop a menu of policy options for the committee to consider. This would be very broad.

Mr. Olson said the first report they would prepare for the committee would summarize other state energy plans. This would be sent to committee members ahead of time for their review. Then E3 would meet with the committee to present the information and discuss it. Each report or document they prepare will then become a chapter in the final energy report. He explained that they would make a report for Idaho's current and projected energy use, a description of the energy supply infrastructure and current events affecting Idaho's energy supply. Specifics of each report or chapter are included in their PowerPoint presentation that is available at: www.legislature.idaho.gov under the Energy Interim Committee section.

Representative Jaquet asked if part of the costs included in their proposal is for travel around the state to present the draft report. **Mr. Olson** said that was not included in the costs presented because they were not sure how many meetings would be held and how much travel would be required of them. He said the draft report should be available in October or November.

Representative Eskridge stated his concern with the depth of process and that he does not want E3 to reinvent the wheel when a lot of information is already available. He wants to focus on the Pacific Northwest; Idaho, Washington, Oregon and Montana, where there is such heavy federal involvement. He said he is not sure the committee needs information on Nevada or California; states that do not have the same federal presence. **Mr. Olson** explained that E3 would draw on all existing sources available including the 1982 plan and the plan from INL and put that information in a format the committee can use. This will provide basic information for the committee in one place. They propose to write a chapter that talks about resources from information that has already been completed by other groups such as the NW Power Planning Council. Then that chapter will be presented to the committee to facilitate discussion. He noted that breaking into subgroups might also be another way to provide information to the committee. In response to another question from **Representative Eskridge**, **Mr. Olson** said E3 would not be developing their own forecast of Idaho but would go to the best source available that has already gathered that information.

Representative Smylie commented that he would anticipate looking into environmental impacts of some of these resources because during session the Legislature heard conflicting reports. **Mr. Olson** said E3 would gather information regarding the different energy sources for the committee but that they are not experts on how these affect the environment.

Representative Jaquet said that she wants to make sure the report includes information regarding the needs of the cooperatives and how that is going to change in the next few years.

Senator Kelly commented that this is a very complicated area with a lot of different

stakeholders providing information to the committee. She found E3's approach appealing because they will use existing information and compile a report for the committee to make it easier for them to be able to make decisions. She thinks that without their help, it would not be possible for the committee to synthesize the information objectively. **Senator Gannon** agreed with **Senator Kelly**. He added that many people think this committee was formed only to deal with siting for coal fired plants. He said it is very important that the report outline the reality of the state situation to lead to a rational discussion of solutions. In his opinion, the committee has to do this on behalf of the citizens of Idaho.

Representative Stevenson said that since Idaho Power and Avista's IRPs have had public review, those plans should be integrated into the report as a starting point. **Representative Eskridge** asked how E3 would incorporate utility IRPs into the report. **Mr. Olson** said that is the best information available regarding state energy needs and where the state stands. He said they would put each utility's information in the report to give the committee an idea of how the infrastructure works today. **Representative Eskridge** noted that the IRPs are not necessarily what the committee will want to do but the information in the report will be available to help the committee make decisions. **Mr. Olson** agreed. He said the report would also include natural gas IRPs.

Representative Smylie commented that Idaho Power's IRP committee is meeting this week and the public is welcome to attend. **Mr. Rich Hahn** from Idaho Power said that was correct and that he would provide more specifics to those who are interested. **Representative Stevenson** asked when Idaho Power anticipates the 2006 IRP being completed. **Mr. Hahn** said they have to get it to the PUC by the end of the summer. After that the company takes the plan out for public meetings and comments throughout the state. Those comments are considered and then the plan is filed with the commission. He said the PUC also submits the plan for public meetings and comments. **Representative Stevenson** asked whether Idaho Power would have any objection to E3 using the information they have so far for their 2006 plan. **Mr. Hahn** said if the consultant is going to use information from the IRP, it would be appropriate to have an update of the 2006 plan.

In response to a question from **Representative Jaquet** regarding a statement made by Idaho Power indicating that they plan to locate a coal plant in Idaho in the next few years, **Mr. Hahn** explained that comment was taken out of context. It was stated that there will be a need for a coal fired resource by 2013 but there has been no decision where it would be sited. Their IRP does not indicate preference for a coal fired resource and there has been no decision to site a plant in Idaho.

Representative Block asked whether E3 will bring information to the committee regarding what other states are planning to do regarding environmental concerns and air quality issues. **Mr. Olson** said their intent is to summarize the energy plans of other states. This will also include issues from those states that might not be part of their actual energy plans.

In response to a question from **Representative Eskridge**, **Mr. Ken Miller**, NW Energy

Coalition commented that their preference would be for the public to be as involved as possible in the process prior to development of a draft. **Representative Eskridge** noted that it has been recommended that the public process take place after the draft has been completed. **Mr. Olson** said they anticipate that while developing the draft at meetings like this, the public would attend and be welcome to comment and participate. He said this could also be done in other parts of the state.

Mr. Hendricks, Idaho Farm Bureau, asked whether it is still the intent to subdivide the committee into four task forces and how that fits with the consultant's plans. **Representative Eskridge** said that was his understanding. He asked, since **Mr. Hendricks** is interested in ethanol issues, how E3 would incorporate these issues into the process. **Mr. Olson** said that the issues of ethanol, biodiesel and other transportation fuels are important and they would do their best to include information, including the pros and cons of these fuels in the report. He said they would also look at what other states are doing.

Mr. Russell Westerberg, PacifiCorp, stated that there is a state energy plan in effect in the state. He said it would be helpful to state energy providers for the committee to decide what part of that system is not working. **Senator Gannon** noted that before the committee can tell industry what is broken, they need to decide for themselves what or if anything is broken.

Ms. Marsha Smith, PUC, noted that on an interconnection-wide basis there has been an effort over the last three years to get consistency among the forecasts of the utilities that are sent to the Western Electricity Coordinating Council. This is the western interconnection reliability council. This council has created a new loads and resources subcommittee that is looking at the question of resource adequacy on an interconnection-wide basis. She said, in her opinion, it is important to incorporate how that interconnection process works into the report. She suggested that it is a good platform for the committee to use the IRPs as a snapshot as to where the industry is. She reminded them that these are just forecasts and encouraged them not to spend a lot of time worrying about the details of that. She said the important service the committee can provide the citizens of the state is a policy debate. These policies would include whether the state is going to have incentives for certain fuel types, whether there is an appropriate siting process in place to get the resource we need in a timely manner, whether the state is going to encourage building codes and whether there will be policy directives for the PUC. **Ms. Smith** said it is her hope that the consultant can do this quickly so the majority of the time can be spent having policy debates for the citizens of Idaho.

Representative Snodgrass distributed a handout of issues and ideas that he had heard from constituents and others that he felt might be important for the committee to consider. Some of these points included:

- C Establish a broad goal for renewable resources based on Idaho load and economic viability that does not include mandatory portfolio standards
- C Initiate federal/state land swaps to assist siting of generation/transmission facilities
- C Strengthen building codes to promote energy efficiency
- C Recognize that rail delivery of coal is problematic and explore methods to improve coal

- delivery in Idaho
- C Promote a bilateral partnership between Idaho and the Wyoming Power Authority to finance expanded transmission capacity between the two states

Representative Snodgrass said he wanted to make sure that, in developing this plan, the state does not duplicate services or information that is already done by state agencies. He wanted to clarify the information that E3 can provide and what information has already been gathered by state agencies for them to use.

After further discussion it was decided that E3 would facilitate the next portion of the meeting by asking committee members and attendees what issues they felt should be included for review or discussion. The list was categorized as follows.

Facility (Generation and Transmission) Issues [Siting Group for Energy Facilities]

- C Look at existing system [gaps]
- C Federal vs. State on Transmission
- C Impact on water of alternative generating technologies
- C How far to go with Siting
 - Setbacks
 - Separate Department
- C Air Quality acceptable levels
- C Conservation

Renewables (incentives, loans) [Generation IRP Group]

- C Generation type
- C Resource adequacy
- C Merchant plant vs. regulated plant
- C BPA Issues and Resources
- C Co-op Issues with resources
- C Demand today and forecast
- C Options to meet demand
- C Ratemaking incentives for efficiency
- C Building Standards and Codes
 - Look at existing adopted codes
 - Energy Independence [security and insurance]
- C Transportation fuels
 - Economics

Implementation strategy [Implementation Group]

- C What does the plan do [force of law vs. guidelines]
- C Start with plans today
- C Identify gaps and provide guidance
- C Analysis of Need
- C Options [pro and con] using wide definition of benefits and costs

- C RR vs. transmission
- C Develop guidelines to promote options using incentives
- C Development benefits of state vs. out-of-state resources
- C Public Involvement in preparation of draft
- C Energy Independence [security and insurance]
- C Transportation fuels
 - Economics

Public Involvement [getting issues on table]

- C Tee up in-state development issues
- C Idaho shaping own policy
- C Energy options on tribal lands
- C Gaps in existing energy plans
 - Coal in Idaho vs. Transmission
 - Provide clear direction for utilities
 - BPA will assist in providing information on BPA issues
- C DSM and energy efficiency
- C Farmers are interested in renewables and energy producers and alternative fuel
- C Mandatory portfolio standards vs. incentives [investigate existing sources of funding]
- C Need for energy policy
 - Siting
 - Tax issues
 - Renewables and incentives and tax policy
- C Stakeholder process
 - Health, environment and climate change
 - Counties Issues
 - Siting still made at the local level, but open to coordinated process [CAFO siting process]
- C Scope on transportation issues needs to be carefully defined
- C Opportunities
 - Better procurement of energy needs
 - What policy directions are preferred
- C Idaho has to “opt-in” to federal cap and trade program for mercury by November of this year. Idaho DEQ has asked for extension.
- C Transmission corridors are needed to address growth parallel to Federal corridors (There is existing state statute)
- C Look at impact on ratepayers and taxpayers
- C Facilitation is key in developing siting process
- C Wise for counties to emphasize utility corridors
- C IPUC awards CPCN. Test is broad and can vary by case.
- C For renewable incentives consider tax policy rather than ratemaking process
 - Language for income tax rebate already written
- C Same incentive issues (tax vs. ratemaking) apply to renewable resources
- C Oversight and Standards for environmental policy

- C Preferences for “clean energy”—BACT by technology
- C Climate change and carbon should be part of the plan and considered in resource mix
- C Low Income and LIHEAP should also be considered
- C Energy Office functions and responsibility
- C Industrial customers and co-ops believe that coal belongs in the resource mix
- C PURPA takes the place of a separate renewable standard
- C DSM should focus on peak shaving

The following questions were asked during the compilation of the above list.

Representative Eskridge commented that Idaho policy is basically a moratorium on coal development by default and if the committee does not do anything, that will continue to be the state policy. He thinks the state needs to decide what resources to emphasize. **Mr. Rich Hahn**, Idaho Power, said that the state put a two year moratorium on coal fired plants and there is actually a moratorium on coal in Idaho due to the existing mercury standard. **Representative Eskridge** said that currently the moratorium is only on merchant plants but if Idaho Power or another utility tried to site a coal plant in Idaho, there would be a moratorium on the regulated utilities as well. **Mr. Hahn** agreed.

Representative Jaquet stated that she could not believe that three of the four counties she represents agree with the comments made by the Idaho Association of Counties regarding the county in which a site will be located having sole decision-making authority for that siting. **Ms. Kelci Karl, Idaho Association of Counties** noted that this was voted on by the majority at a meeting consisting of 104 counties’ commissioners and clerks. She added that Blaine County was not represented at that meeting. The issue will be discussed again in September. She also stated the counties would not be opposed to a CAFO siting team. **Representative Jaquet** asked if they could bring information to the September meeting as to what such a team might look like and what resources the counties think they might need.

In response to a question from **Representative Andrus**, **Mr. Hahn** explained that a coal fired plant would not be allowed in Idaho because there is a zero mercury emission standard in Idaho. Idaho would have to opt in to the federal cap and trade program in order to acquire mercury emission credits to allow those emissions to occur in Idaho.

Senator Kelly explained further that this is a proposed federal cap and trade program and that last year DEQ proposed a rule to opt into the program. This rule has been pulled back and now Idaho will have to make a decision by November whether to opt in to the program or not. The default is to opt in. So if the state does nothing, it will be in the cap and trade program by November. If the state opts out, Idaho would have zero mercury emissions allowed from large coal fired power plants. She said the Governor’s office in connection with DEQ will be guiding that decision. Since this opting in or out would be done by rule, there would be an opportunity for the Legislature to review the action. The issue here is that between November and January when the Legislature reviews that rule, the rule would be in effect and it might be difficult if any changes were to be made to it. She explained that if a state opts out, they can opt in at a later

date and there is an option to opt in with qualifications. **Representative Smith** said the DEQ has asked for an extension of the November deadline but they have not heard anything yet. **Mr. Olson** clarified that it appears that if the committee does nothing, that does not mean that there will be a permanent moratorium on coal fired plants in the state.

Senator Gannon asked the PUC for a recommendation on how to improve the transmission line process in Idaho. **Mr. Kjellander** said that his hope with transmission siting would be that whatever is established is defined with the intent to facilitate the actual construction of transmission, as opposed to thwarting the development of that transmission. **Mr. Olson** asked whether the PUC has any authority regarding siting. **Mr. Kjellander** said it is very limited and is open for discussion. He said the PUC can issue orders that tell a utility that it has to build transmission. **Ms. Marsha Smith** agreed. She went on to say the PUC has found that the general statement in a city or county planning and zoning document that allows utilities their rights-of-way is inadequate when a utility actually needs to do a project. She said it would be wise for cities and counties to look at utility corridors and put them on a map so everyone knows where these will be located down the road.

Senator Gannon said he had read in the Times News that the city of Fairfield was told by Idaho Power to string some lines if they want more power. He also found out after the legislative session that the city of Buhl had a meeting with Idaho Power and they were told to think about energy corridors and how to fund them. He asked if this is consistent with ratepayers ultimately having to pay for transmission and the utility or local government not having to make an up front investment in that transmission. **Mr. Hahn** said he had not done any research regarding the Buhl situation. He did say that in Idaho Power's local jurisdictions, they look at plans for future transmission or substation sites and identify those sites and, where possible, put them in the comprehensive plans. He said that for the last six months Idaho Power has been working with a citizen advisory group to identify future substation sites and transmission corridors in the Treasure Valley to deal with the extensive growth that is taking place.

Mr. Hahn said that in the case of Fairfield, if there is an entity that desires to locate and requires a specific amount of kilowatt capacity and the line is not capable of carrying that capacity, the utility does a work order under tariffs approved by the PUC. There is a cost or fee to the entity requiring the utility to make that investment to serve that load. This is so all of the other customers are not subsidizing the investment for that specific customer. That is the line extension policy.

Representative Stevenson said he thought there was legislation passed this last session that allowed them to purchase sites that would be used for future substations. **Mr. Hahn** said that legislation was passed that allows the utility to make an application to the PUC. The PUC then determines whether there would be enough return in rates for property held for future use. This will go into effect July 1 and is something Idaho Power feels is very important. Buying sites today for future use makes more sense economically.

Representative Jaquet asked how the eminent domain initiative will affect their operations if it

gets on the ballot. **Mr. Hahn** said it looks like the initiative is more directed to regulatory takings but Idaho Power's legal department is looking at it.

Representative Jaquet said she had read something dealing with determining where new corridors might be. In her opinion, it would seem like finding new corridors would be very difficult and it would be better to upgrade existing corridors. **Mr. Kjellander** said there is an effort toward not locating all of the transmission in the same corridor where a single event, such as a forest fire, could take out all of the power. **Ms. Smith** added that if everything is located in one corridor, it is more expensive due to how reliability rules work.

Senator Kelly asked about the PUC's role in the IRP process. **Mr. Kjellander** explained that when the IRP comes in, the PUC does not actually look at approving it, they look at it as the blueprint that utility is going to follow. The IRPs also get used to help determine whether or not the decisions the utility made were appropriate and should be included in the rate base. Another important part of the IRPs is that once they are filed with the PUC, the utility begins working on the next one so the PUC knows the utility is constantly looking ahead. Due to the fact that IRPs are filed by all three utilities, they let the PUC know what is happening in the region. In response to a question from **Mr. Olson**, **Mr. Kjellander** explained that a certificate of convenience is a chance for the PUC to review whether a plant is in the public interest and makes sense for the utility to get it in the rate base and so on. **Ms. Smith** commented that the statutory language for the certificate of convenience is for present or future public convenience or necessity. This gives the PUC a lot of leeway. Many states can only look at what is useful currently. She said she did not think such a certificate had ever been denied by the PUC.

Representative Eskridge asked, since Idaho Power's IRP indicates 100 MW of renewable resources, whether it would be more helpful for the state to develop tax incentives to help the utilities bring renewable resources online. **Mr. Hahn** said that would be up to the purview of the committee, but when they do their IRPs, they plan to develop these resources regardless of incentives offered or action taken by state government. He said the question about incentives helping the utility is whether the incentive lowers the price of the utility acquiring the resource and ultimately passes on to the customer or is the incentive to benefit the developer.

Representative Eskridge said his perspective is that it is an incentive for state purposes in terms of economic development or an environmental benefit. He said the ultimate benefit, in his opinion, would be if the state provides a tax incentive for the development of particular resources, that should make that resource cheaper to the end user.

Ms. Smith clarified that the PUC did deny a certificate of convenience for a coal fired plant in 1976 known as Pioneer.

Mr. Westerberg, in response to the question **Representative Eskridge** asked **Mr. Hahn**, said that if the state wants to see more renewables, they, as a utility, would prefer an incentive that encourages the location of renewables rather than doing something that affects the utility and the PUC's ability to price the renewables to the customer. **Representative Eskridge** said that was the direction he was speaking of. He also noted that this would be a separate issue from PURPA.

Senator McKenzie commented that these same questions will be asked regarding incentives for demand side management as are being asked for renewables.

Representative Jaquet asked whether other states have PUCs that regulate merchant plants. **Mr. Orans** from E3 said that California does. **Mr. Olson** added that there are a number of states that have facility siting bodies of some type or another.

Representative Stevenson asked how often the PUC looks at the avoided cost for reevaluation and whether they are bound to use natural gas as the avoided cost rate. **Mr. Kjellander** stated that they do not have to use natural gas as the benchmark. Two years ago was the last time avoided cost was looked at and even though there was volatility in the natural gas sector, most of the purchases utilities were making were tied to natural gas prices. All of the plants being used in the wholesale market were predominately natural gas because that is all that has been able to be built over the last decade or so. He said if avoided costs were looked at today, in his opinion, natural gas would still be part of it. **Mr. Kjellander** said they look at avoided costs when someone brings a case before the PUC or if the PUC determines that the volatility of natural gas is so extraordinary that it is time to look at another benchmark. In considering another benchmark, the cost of transmission would also have to be considered. He said the price is updated based on the natural gas forecast of the Northwest Power and Conservation Council.

Representative Jaquet asked if the cooperatives, once BPA changes the way their power is supplied, would come under regulation of the PUC. **Mr. Orans** said that he is working with a cooperative in Wyoming and they are the only BPA cooperative that he knows of that is under the PUC regulation. He noted that this is a huge burden for the cooperative because BPA has its own ratemaking process and if BPA does not provide them with power, they have to stand in line at the PUC to wait to have their rate of return reviewed.

After the conclusion of the question and answer period E3 summarized what had been heard from committee members and stakeholders. They broke the above list of topics into four main categories. These are:

- C Siting
- C Renewables (Incentives, loans) (Generation IRP Group)
- C Implementation Strategy (Implementation Group)
- C Public Involvement (getting issues on table)

Senator Kelly commented that this is a question of what information the committee needs so that everyone is on the same page. She said the committee has had many presentations from different groups from their points of view on issues and thinks it is important to have the consultants bring neutral points of view when presenting the information. **Mr. Orans** emphasized that each subcommittee has to start with utility IRPs and to make sure everyone understands what they are and how they work. This will give each group knowledge of what the state has available. He said that the key is formation of the subcommittees and the timeline involved. In response to a question from **Senator Gannon, Mr. Orans and Mr. Olson** both

agreed that with the amount of work to be done in a short amount of time, subcommittees are very important.

E3 commented that ideally they were going to have a working meeting such as this to work specifically on goals. **Mr. Orans** said his thought now is that these goals are not as helpful unless there is a topic. He said each subcommittee will have different goals to work towards and that should be more helpful.

Senator Gannon said that concept of public input and travel through the state taking input from citizens is important to some members and needs to be addressed. **Representative Eskridge** agreed that is important but said he is not sure how it will be accomplished. **Representative Jaquet** stated that since the committee is going to be making some public policy decisions, in her opinion, it would be appropriate to do public hearings across the state prior to making those decisions. Her recommendation would be to present options to the public once the subcommittees have made their recommendations. **Representative Bell** commented that the committee does have substantial budget to work with and that there does need to be a process to include public participation. **Representative Block** noted that the resolution that formed this committee also allowed for involvement from the health care community, agriculture and industry, as well as state agencies. **Representative Eskridge** agreed that all of these different groups should be part of the subcommittees if they are interested.

Senator McKenzie stated his proposal for subcommittee topics as follows:

- C Generation, including renewables and conventional
- C Siting issues, both generation and transmission
- C Conservation or Demand Side Management
- C Transportation Fuels
- C Natural Gas as a heating fuel

He said that implementation mechanisms could be part of each subcommittee or the entire committee could discuss implementation after hearing reports from each subcommittee.

Representative Eskridge suggested, as a starting point, it was his vision to have E3 give a report to the entire committee at the next meeting showing Idaho's energy supply, loads and needs and how those loads are met. This report should also include what the state's anticipated energy needs are and how to meet those needs. After that information has been delivered, the subcommittees would be formed with the cochairmen of this committee appointing chairmen of the subcommittees. **Representative Eskridge** said that after the subcommittees are formed, involvement from outside parties would be on a voluntary basis and they would not be reimbursed by the state. Outside parties that participate in subcommittees would not be voting members.

As a way to notify interested members of the public, the committee decided they would prepare a press release and put an announcement on the Legislative Services Office website asking for nonlegislative members interested in participating on the subcommittees to contact the appropriate people.

Mr. Mike Louis, Energy Policy Institute, commented that the proposal they submitted to the committee included survey work. He suggested that might be a good way to get public comment without having to travel across the state.

The next meeting of this committee was scheduled for July 11, 2006 at 9:00. With no further business the meeting recessed until 8:00 a.m. tomorrow, June 13, 2006.

Day 2
June 13

The meeting was called to order at 8:00 a.m. by cochairman **Senator McKenzie**. A list was passed around for committee members to sign indicating their preference of subcommittees.

Representative Eskridge gave the committee some background on the Northwest Power and Conservation Council (NWPPCC). He explained that in the late 1970s, BPA was getting into a situation where they did not have enough power to serve the needs of the Pacific Northwest, especially the public power customers. At the same time, due to the shortage of energy, other bodies were discussing forming their own public groups that would be eligible for energy from the federal system. This discussion resulted in the formation of the NWPPCC in 1980. They went into effect in 1981 by an act of Congress as an advisory body to BPA. The council is funded by power revenues generated from the federal system and BPA. Their current budget is about \$4 million. The NWPPCC legislation adopted a priority for conservation over power acquisition. The philosophy was that conservation was ultimately cheaper than other types of resources.

Representative Eskridge went on to say that in conjunction with that, the legislation also stated that the council was responsible for fish and wildlife mitigation plans to compensate for the wildlife and fish impacts created by the federal hydro system. Funding for this also comes from revenues generated by the BPA ratepayers.

He noted that the purpose of the NWPPCC was to plan for resource development in the Pacific Northwest given that BPA was out of resources. The concept was that the council would develop a power plan and a fish and wildlife mitigation plan. This plan was to serve as a guideline for BPA in terms of acquiring resources for the federal system to serve the customers and to avoid the need for allocation. This also avoided the formation of an Oregon statewide public power entity.

Mr. John Williams, BPA, agreed with **Representative Eskridge's** description of the NWPPCC. He added that when the Power Act was signed, there was a multi-state agreement between Montana, Idaho, Washington and Oregon that basically allowed the governors of each state to appoint two members to the council. Each state would have their own staff in addition to the central staff of the council.

Mr. Williams explained that a portion of the 1980 act that created the NWPPCC also created the residential exchange program. In southeast Idaho this is called the Bonneville discount benefit.

This allows investor owned utilities to receive monetary benefits from BPA that they pass on to their residential customers. As an aside, **Mr. Williams** noted that when BPA had to place the WPPS debt on its financial books, Idaho Power and Avista (which at that time was known as Washington Water Power) did not receive these benefits for a number of years. 1998 was when they started receiving benefits.

Mr. Jeff King, NWPCC, was introduced to review the presentation given to the committee by the council at the April meeting. This PowerPoint presentation is available at the Legislative Services Office and in the minutes of April 19 and 20.

Mr. King explained that the goal of the plan is to help assure an adequate, efficient, economical and reliable power system by identifying a robust, flexible plan for managing power system costs and risks in the face of future uncertainty.

The following questions were asked by committee members during **Mr. King's** presentation.

Senator McKenzie asked since the electrical grid extends throughout the west, whether there has been discussion of forming a council such as the NWPCC that reflects the geographic scope of the grid. **Mr. King** said there were individual activities underway but there has been no discussion of anything that has the same scope as NWPCC in terms of forecasting and planning.

Representative Bell asked whether the actual plan goes more in-depth regarding recommendations instead of statements such as "be prepared to begin" as stated in the summary slide. She asked whether the plan goes into more specifics such as where the wind would be located and how they plan to get it. **Mr. King** said there are specific amounts attached to these statements by certain years but it does not say when they should be available to go online. He said the council does not see a need for significant construction until 2010 and it seems to work best to be in a position to develop new resources if they are necessary. This reduces risk and improves reliability and it helped with the energy problems that occurred in 2000. At that time there were several combined cycle gasification plants that were fully permitted, sites were acquired and the transmission had been designed allowing them to go into service very quickly. This is one of the reasons prices went down within about 12 to 13 months after that crisis.

Representative Bell clarified that this means they are looking at sites ahead of time so everything would be ready to go if needed. **Mr. King** said yes, all of the permits would be in place, sites identified, the sites would either be purchased or have options to purchase in place, the transmission would be ready, environmental permits would be in place and preliminary engineering so they would be ready to go.

Representative Eskridge stated that there is information showing that the region will be short of power by 2011 and that the cooperatives are trying to determine what they are going to do if BPA does not supply all of their power. He asked why the council is saying construction of baseload generation will not need to start until 2012. **Mr. King** said they assumed that there would not be any decommission of any major generation facilities (removal of lower Snake

River dams) and even if that did happen, it would take some time to actually take place.

Representative Eskridge asked whether the region has a potential shortage of 5,000 megawatts in the near future. **Mr. King** said the council sees no region-wide shortage until 2012 and admitted that it could take six years to build generation. **Mr. King** used a chart that showed the load resource balance in the region out to the year 2013. It shows that if the median forecast of a 1,500 megawatt surplus carries out, the surplus will reach zero by about 2011 or 2012. At that point new resources will be required to maintain system reliability. He said that in reality, Idaho can import resources from California and the southwest in the amount of 1,500 megawatts reliably. **Mr. King** said this means that this region can operate a technically reliable system with a deficit up to about 1,500 megawatts. Shifting the load balance to include this 1,500 megawatts that can be imported pushes out the load resource balance in okay conditions from medium to low rates of growth indefinitely. With medium high load growth rates, the load resource balance point goes to 2011 or 2012. He said that in the last couple of years the region has seen medium to low rates of load growth.

In response to a question from **Representative Jaquet**, **Mr. King** explained that when the council forecasts resource availability for hydro, they use the average of the worst three water years on record.

Senator Fulcher said he was assuming that a price excursion means a price increase. He asked when there is a price increase and power has to be purchased from outside of the region, how much that increase actually would be. **Mr. King** stated that a price excursion is an increase or spike. **Senator Fulcher** asked what is in their assessment that proves that alternative power sources will actually be available from Nevada, California and the southwest. **Mr. King** stated that the council is relatively confident in 1,500 megawatts being available from California and the southwest because that region generally has complementary loads to northwest due to seasonal differences. They need more energy in summer months and the northwest needs more in winter. Weather systems that affect our peak loads tend not to affect California from the Bay area to the south.

Representative Block noted that the list of resources in his presentation includes coal gasification plants but not other types of coal generation. She asked whether that is because of emissions and climate change. **Mr. King** said the NWPC looked at both types of coal. Currently coal gasification is 20% higher in cost but the thinking is that price will come down by 2010 or 2012 and the two types should be equal. Coal gasification also has less emissions and with future control of CO₂ that could make conventional coal more expensive.

Senator Gannon admitted that the northwest load peaks in January but that Idaho Power has stated it peaks in the summer due to irrigation and air conditioning. He asked why Idaho Power is building peaking gas plants when the northwest has surplus power in the summer. **Mr. King** answered that Idaho Power is building those gas plants because they are transmission constrained relative to the rest of the northwest.

Mr. King reviewed the principal resources the council looked at when deciding the combination of resources and development timing recommended in the power plan. These included:

- C Conservation
- C Wind Power
- C Conventional Coal
- C Gasification Combined Cycle Coal
- C Natural Gas Combined Cycle

He said these are the resources that appear to be available over the next 15 to 20 years to produce large quantities of electricity.

In response to a question from **Representative Andrus** regarding why their forecast does not include a nuclear power plant in the next 10 years or so, **Mr. King** said this plan was developed two years ago due to the Energy Policy Act. He said there is a new generation of nuclear reactors that have been developed but none have been deployed yet. Interest in these is concentrated in the southeast U.S. and construction should begin in the next few years. These new reactors should be in service by 2013. The hope is to let them operate successfully in that area and once it is proven that the technology works, more people will be interested.

Representative Eskridge asked about wind and certain reliability. **Mr. King** defined certain reliability as meaning the performance of a wind plant is predictable in the sense of the long-term average performance with current wind technology. It is not an indicator of firm versus nonfirm energy.

Representative Eskridge asked whether the council looked at mercury emissions when forecasting for coal. **Mr. King** said they put additional costs into coal to allow for mercury control. **Representative Eskridge** clarified that this means that at some cost there can be some reasonable mitigation for the mercury problem. **Mr. King** agreed and said that there is equipment available that can deal with it. **Representative Jaquet** voiced concern that if such technology is available, how would that be monitored and how do other states do this. **Mr. King** said he did not know what organization would do the monitoring. Physically the plants are equipped with a monitoring system and sensors on the stack to monitor key pollutants. Those sensors report results into a central database that is maintained by the federal EPA. These results are posted to a website at a later date so that the actual emissions of the plant are available but **Mr. King** said he is not aware of who looks at them in a real time sense. **Representative Block** asked whether these monitoring devices monitor possible ground water pollution as well as air emissions. **Mr. King** said the system he was referring to monitors air emissions only. It is his understanding that the ground water would be site specific and would be monitored by the state.

Representative Eskridge asked whether the integration cost of wind is becoming more expensive than originally thought. **Mr. King** said that three years ago the NWPC had a lot of discussion regarding the integration costs of wind. He said that in 1999 or so, when the first wind plants went in, several utilities were approached by developers to integrate the wind into their systems. The initial response to this was that it would cost \$15 to \$25 per megawatt hour. That was too much. After utilities studied the issue further, they agreed upon price came down to \$3 to

\$6 per megawatt hour. As more projects were integrated, this price stayed the same. The plan price was \$4.50 to \$10 per megawatt hour. Over the past six months there has been increasing concern over the cost of wind power because the bids have been going up rapidly. The reason behind this increase, according to **Mr. King**, is not the integration costs, it is the construction costs. He said these costs are coming in at \$65 to \$85 per megawatt hour due to the cost of construction. **Representative Eskridge** clarified that is 6.5 cents to 8.5 cents per kilowatt hour which is quite expensive. He said one of the drivers of this is the exchange rate and the fact that a large proportion of wind turbines are manufactured overseas. They are thinking this is cyclical. In response to another question from **Representative Eskridge**, **Mr. King** said he is in the process of comparing the costs of other resources but that comparison is not completed at this time. He suspects that the price of coal has gone up but not by as much as wind. **Representative Eskridge** commented that if wind is 6.5 cents per kilowatt hour and coal is 4 cents plus some amount for emission control, since wind is nonfirm and coal is a baseload firm energy resource, there might be some cost consideration in terms of that resource. **Mr. King** clarified that the price he gave for wind is the firm shaped price.

Senator Gannon asked for clarification of firming and shaping for wind. **Mr. King** explained that wind does not blow at a constant or predictable rate all the time and electrical loads vary depending on the time of day. This output of wind power has to be shaped to serve the load. In the northwest this shaping is done by a utility with hydro power capacity. Such a utility will take the output of the wind plant, store the excess energy in the hydro system and bleed energy off the hydro system during the period that the wind plant is down. That shaping utility, as this is called, will deliver a shaped and firm product to a utility customer. In response to a question from **Representative Andrus**, **Mr. King** said that this energy is stored in the reservoirs such as Brownlee, Dworshak and so on that can fluctuate several feet. When the wind plant is generating power, the turbines and the hydro facility are held back and wind power is fed into the system. This increases the hydro levels somewhat and when the wind dies off, the turbines at the hydro system are opened up to use that stored water.

Mr. King's presentation included a chart showing natural gas fired generation that utilities such as Idaho Power are building. He said these plants are being built to shape some of the wind in the future. These plants will be used because the thinking is that the hydro that is being used today will no longer be available. **Representative Eskridge** asked whether there is any way to avoid using natural gas for this since its price is volatile. He asked if there is any other resource available. **Mr. King** said there is a possibility that coal gasification technology might work in that mode.

Mr. Ron Williams commented that natural gas may be volatile pricewise in the winter months when it is peaking and a long-term supply has not been secured. He went on to say in regard to peaking resources that it makes more sense to build peaking natural gas plants that only run 300 to 500 hours a year rather than build expensive transmission to import that energy.

Senator McKenzie asked for clarification of the term "lost opportunity conservation." **Mr. King** said lost opportunity would be building code construction that is not done at time of

construction. If the initial construction is not done at the highest most energy efficient level, it is unlikely that it will be done later.

Mr. King reviewed several slides on wind power. He said that wind became an important component of the plan due to the fact that it is the least cost renewable resource available in large quantities. Two years ago prices were thought to be on par with coal by 2010. He said that could have changed but he is not sure. Wind is also free from fuel price uncertainty, has low carbon dioxide production and provides significant local economic benefits. The owner of the land that the turbine sits on usually gets \$2,000 to \$5,000 per year. These projects also contribute to the tax base.

Wind issues include system integration costs, transmission and shaping and other environmental issues. To a great extent in the northwest the developers have learned how to avoid the environmental issues by proper siting. It is really an issue of putting the turbines in the right spot.

Senator Gannon asked about the wind farm dispute in Washington state. **Mr. King** explained that this site is located in the Yakima area by a scenic river and near a second home community and it is probably not the best place to locate a wind farm. **Senator Gannon** clarified that this means this is not the general feeling in Washington toward wind. **Mr. King** agreed.

In response to a question from **Senator Kelly**, **Mr. King** said most transmission lines from wind turbines go underground to a central substation located on the outskirts of the farm that ties into transmission.

Mr. King explained that the plan recommends over the next several years that the northwest develop a minimum of 500 megawatts of wind at diverse sites. He said that Idaho has good resource potential in southern Idaho and that development is beginning. He said the advantage in southern Idaho is that it is relatively near load, unlike eastern Washington and Oregon. The hydro-based system is also important to help shape the wind power.

Mr. King went on to discuss several slides dealing with coal. The pros and cons follow:

C Pros:

- C Abundant, low-cost fuel
- C Mature power generation technology
- C Baseload power generation
- C Emerging more efficient, cleaner and flexible advanced technologies

C Cons:

- C Uncertain future carbon dioxide control requirements (federal & state)
- C Air emissions
- C Water consumption
- C Siting can be controversial

C 5th Plan:

- C Some coal development may be needed to supplement conservation & windpower
- C IGCC should be employed if commercial
- C Idaho:
 - C Crossroads of mainline rail from coal producing areas and E-W and (proposed) N-S transmission trunk lines

Representative Eskridge asked if anything is being done to make rail transportation for coal more reliable. **Mr. King** stated that many plant operators own their own rail cars. He added that congestion is a serious problem on existing rail systems especially going east.

Mr. King discussed the difference between coal gasification technology and conventional pulverized coal technology as follows:

- C **Gasification (IGCC)**
 - Coal converted to a synthetic gaseous fuel
 - Syngas burned in a high-efficiency (46 – 50%) combined-cycle generator
 - Pollutants removed from syngas before combustion
 - CO₂ (optionally) removed from syngas before combustion
 - Syngas can be converted to additional products
 - Heavy auxiliary electrical load (Air separation unit)
- C **Pulverized (steam) coal**
 - Coal is burned directly as a pulverized solid
 - Steam from boiler drives moderate-efficiency (33%) turbine-generator
 - Air pollutants removed from flue gas following combustion
 - CO₂ (optionally) removed from flue gas following combustion

He went on to say that there is interest in coal gasification due to the fact that it has:

- C Slightly lower emissions of criteria pollutants (NO_x, SO_x, particulates, Hg).
- C Much lower cost for partitioning & compressing CO₂.
- C 25 to 60% less solid waste.
- C 5 – 7% more thermally efficient
- C ~40% less water consumption.
- C Polygeneration potential (liquid fuels, fertilizer, etc.).
- C Better public perception.
- C Investment tax credit & other incentives in 2005 Energy Policy Act.
- C 5th Plan: Possible need for 425 MW of IGCC by 2016

Representative Snodgrass commented that there are differing qualities of coal required for coal gasification technology and asked whether there is enough of the proper coal available. **Mr. King** said that there is some uncertainty regarding the use of western coal for gasification due to the moisture content. It is uncertain how much power potential that coal has and this requires that gasifiers be larger to generate the same amount of energy which adds to the cost. He added that there is a proposal to operate a plant initially on petroleum coke which is a product of

refining. Apparently this market is expanding because the lower grade crudes that are being used produce more petroleum coke when refined. This could be a new market for that petroleum coke. He said these plants do very well using it. **Mr. King** said the Energy Northwest proposal was to start off using petroleum coke and to design a plant to accept western coal.

Representative Snodgrass asked whether the modeling the council did to come up with their figures used western coal. **Mr. King** said their numbers were put together about three years ago and at that time the level of information available could not distinguish between the two.

Tom Eckman, NWPC, was introduced to discuss siting/transmission and conservation issues. His complete power point presentation is available at the Legislative Services Office.

Mr. Eckman stated that since 1978 utility and BPA Programs, energy codes and federal efficiency standards have produced nearly 3,000 average megawatts of savings. He said that energy efficiency met nearly 40% of the pacific northwest regional firm sales growth between 1980 and 2003 and that utility-acquired energy efficiency has been a bargain.

In response to a question from **Senator Gannon** in regard to Idaho adopting energy codes, **Mr. Eckman** said they are assuming there is compliance and realize that not all counties in Idaho are using these codes.

In response to a question from **Representative Eskridge**, **Mr. Eckman** said that about 2,500 megawatts from Direct Service Industry (DSI) has been lost but that not included in his chart. He said his information includes only non-DSI load.

Senator McKenzie asked whether building codes in Washington and Oregon are different from Idaho. **Mr. Eckman** said Washington and Oregon adopted building codes before Idaho that include a 40% improvement over the 1980 codes in 1991 and both states are more stringent with enforcement and so on. Once those were adopted, the efficiency was improved greatly. **Senator Gannon** noted that when Idaho did adopt the Idaho Building Codes we caught up to Oregon and Washington in efficiency requirements but that compliance issues are a different story.

Mr. Eckman stated that the 3,000 average megawatts that have been saved through efficiency are enough energy to serve all of Idaho plus western Montana. It is enough energy to meet nearly 60% of Oregon's total electricity use. That is how much load is being served through energy efficiency. This saved regional consumers \$1.25 billion in 2004 and saved 13 million tons of carbon. **Representative Eskridge** said he would assume that conservation also creates a surplus so the region can make money on it. **Mr. Eckman** said that was correct.

Mr. Eckman's presentation includes charts showing efficient frontier permit trade-offs of costs against risk, that timing of conservation measures matters, that accelerating conservation development reduces costs and risks and reduces carbon dioxide emissions. He showed that meeting 5th plan's conservation targets reduces forecast PNW power system CO2 emissions in 2025 by nearly 20%. The plan already includes the expected value of CO2 control "risk." This impact is assuming a PNW CO2 emissions factor of ~ 1 lb/kWh:

- C A \$10/ton CO2 change in emissions “control” cost increases *forecasted* market prices by approximately \$4/MWh
 - Adds 100 aMW to cost-effective total
- C A \$40/ton CO2 change in emissions “control” cost increases *forecasted* market prices by approximately \$16/MWh
 - Adds 400 aMW to cost-effective total

Mr. Eckman said that the 5th plan relies on conservation and renewables to meet load growth. His presentation shows that energy efficiency reduces NPV system cost and risk due to the fact that:

- C It’s A Cheap (avg. 2.4 cents/kWh TOTAL RESOURCE COST) Hedge Against Market Price Spikes
- C It has value even when market prices are low
- C It’s Not Subject to Fuel Price Risk
- C It’s Not Subject to Carbon Control Risk
- C It’s Significant Enough In Size to Delay “build decisions” on generation

Mr. Eckman explained that the target conservation plan is for 700 megawatts over the next ten years with about 130 average megawatts in the first year (2005). He noted that this conservation savings is available in all sections; residential and commercial lost opportunity, irrigated agriculture retrofit, industrial, residential and commercial retrofit. The total resource acquisition costs are about \$1.6 million over the next five years. This includes administration, building and incentive costs making the levelized cost 2.4 cents per kilowatt hour.

Senator McKenzie said that it would seem that an economic rational decision maker would implement such a program at the level of accelerated implementation shown on the chart but in real life, consumers buy the cheaper lowest initial cost product and industry is probably similar. He asked how to incentivize people to pay this up-front cost for conservation or energy efficiency. **Mr. Eckman** said that was a difficult question. He said the prices of things like more efficient light bulbs and the like have to be lowered to get consumers to use them in the beginning. In the commercial sector it would be to change what is required. There needs to be a way to show businesses that they actually make more money in savings by making the effort to conserve. **Senator McKenzie** said this would be important for the subcommittees to consider as they go forward.

Mr. Eckman explained that in 2005 a survey of the 15 largest utilities in the region showed they met the council’s 5th plan average megawatt target savings at less cost than was projected.

Mr. Eckman cautioned that:

- C “Targets” are based on a share of regional load, hence assume all utilities look like the “region”
- C Conservation potential varies due to customer mix, gas/electric market share, load growth etc.
- C Utility IRPs will differ from Council Plan

- C Lumpy-factor: Annual program volume varies
- C Still, many utilities want to know their “share” of the regional conservation targets

Mr. Eckman said that the 2006 projection is about 10% below the target levels and about 10 megawatts lower than 2005 actuals with costs increasing by about 25%. Planned increases are modest.

In response to **Representative Block**, **Mr. Eckman** said there are significant nationwide and state level activities relative to carbon emissions control. Businesses are doing this because it affects their business and tourism.

Senator McKenzie commented that as state policy it would seem better to implement building codes that apply to everyone rather than to incentivize conduct that makes each group different. He said it would seem that it would be useful for the state to work with utilities to make sure this information gets to the public. He asked what other states are doing to get information out. **Mr. Eckman** said that Oregon has the most robust program. They have both a residential and commercial tax credit program. This is a state income tax credit program where a portion of the product costs is rebated to reduce tax liability. He said this can also be transferred to someone who has tax liability. **Senator McKenzie** asked for more information on that program for the next meeting. **Mr. Hoppie** said that the Idaho Code does have tax credit for residential improvements that are energy efficient. This does have a restriction that the improvement must be done to a home built in 1977 or earlier. He suggested perhaps the Legislature could update this.

Dan Piper from the PUC clarified that the council considers risk as uncertainties relative to an event happening. **Mr. Eckman** said that was correct and that they look at magnitude, duration and frequency when considering risk.

Representative Jaquet asked if the Idaho energy code that has recently been adopted is more efficient. **Mr. Eckman** said he hopes so, but there needs to be an education program to work with contractors to show how to build efficiently and to use the best available science to do so.

Senator Gannon asked **Mr. Nugent** to check on statistics as to who has adopted building codes in Idaho.

Mr. Wally Gibson, also from the NWPCC, was introduced to discuss the transmission planning framework for the northwest. Before he began to discuss transmission, he explained that the Western Electric Coordinating Council (WECC), a reliability organization for the entire west that has taken on the responsibility to get better reporting of the resource situation in the west prompted by pressure from the states to do so. The Energy Policy Act created a different framework for reliability and has provisions for resource adequacy. There is also work being done to create guidelines, targets and standards for what constitutes an adequate electricity system. These standards will not be mandatory.

Mr. Gibson said that in the northwest the NWPCC is working with BPA to create a similar set of targets and guidelines for the northwest. He said this is important because our hydro system creates a different framework for understanding where we are headed compared to the rest of the west.

Mr. Gibson went on to discuss transmission planning priorities for the west and how the state of Idaho fits into that. He said that WECC was originally set up as a reliability related organization but has changed its bylaws to allow commercial transmission expansion planning. This is aimed at avoiding large scale collapse of the electric power system.

Mr. Gibson said commercial expansion is how to get transmission properly planned and built to accommodate issues like resource portfolio standards when a lot of renewable resources are not located near load centers. He explained that most of the really good wind sites are located in Montana and Wyoming and most of the major load centers are on the west coast. The question is how to get that to work. Traditionally, utilities plan their own transmission for their own needs. They have worked through WECC to ensure that those transmission additions will work and work reliably in the context of the larger western transmission system. The amount of power that can be carried on transmission lines is governed by what happens in the entire region.

Mr. Gibson said that a few years ago there were some large scale western transmission expansion plans developed that were transferred to WECC. These plans looked at what the west needs as a whole in order to achieve the Western Governor's Association goal of 30,000 megawatts of clean and diversified energy in the western interconnection. It looked at not just utility or state transmission but what the west would do as a whole with large transmission paths from the northern Rocky Mountains to the major load centers in southern California. He said there are also subregional planning bodies looking at local needs and projects.

Mr. Gibson said that WECC is also the interface between the western industries, FERC and the Federal Department of Energy (DOE). He said this is an area that is going to include state siting authorities. The energy policy act gave FERC backstop siting authority. He said that FERC has siting authority over interstate gas transmission pipelines currently, but siting has always been a state responsibility until this backstop authority was established. The energy policy act asked the DOE to create a list of national interest energy transmission corridors that it will designate over the next year or so. If something is designated as a national interest corridor and there is a transmission line that falls into that corridor and it is in a state that does not have a siting authority or the state fails to act within one year of the application, FERC can step in and override the state authority and grant the authority for the transmission. **Senator McKenzie** noted that situation would apply to Idaho because we have no siting authority and there is a north/south corridor that has been projected. **Mr. Gibson** said that was correct and said that there is an area in northeastern Idaho that is a fairly low capacity line that connects the major east/west lines from Montana across to central Washington and lines that flow from Bridger across the Snake River Plain.

Senator Kelly asked whether Idaho has any siting authority that would control this. **Ms. Smith**

said the PUC asked the Attorney General's Office and their opinion is that Idaho does not have one. **Senator Kelly** asked whether Idaho should do something similar to Washington's siting authority. **Ms. Smith** said she has always thought the Legislature should do something in this area. **Mr. Kjellander** agreed that it might be a good idea for the Legislature to look at this. **Senator Kelly** asked how urgent these deadlines are. **Ms. Smith** said it can wait until the legislative session. She said DOE has not designated the corridors yet. That should be done around August 8 and the state has one year to approve the application. If it is not approved by the state, DOE can ask FERC to override state authority. **Mr. Gibson** said it was his understanding that designation of the corridors is after August. **Ms. Smith** said there is at least one designation that has to occur within one year and she could be mistaken about the corridor designation date. **Mr. Gibson** said there is a 1221 process that said studies had to be completed by August and he thinks there is an indefinite period in which to designate the actual corridors. He said there have been a lot of comments from the western states to be very careful about designated corridors. DOE is not rushing forward to designate these corridors because they do not want to get into a federal versus state government battle. In **Mr. Gibson's** opinion, DOE will not designate corridors until next summer. He added that they do not have to designate all of the corridors at once.

Mr. Gibson said there is pressure from some developers for DOE to designate corridors as fast as possible. This is due to the fact that the developers think they will get a heads-up on projects once designations are made. He noted that designation does not mean that anyone will put up the money for a project. The ultimate question about transmission lines is who will put up the money to develop the project.

Mr. Kjellander said, in reference to federal land corridors, the preliminary maps from DOE are available. He said he would e-mail those to anyone who was interested. The maps are available at: www.legislature.idaho.gov under the Energy Interim Committee section.

In response to a question for clarification of the backstop authority from **Senator Kelly, Ms. Smith** explained that if a state fails to approve a transmission corridor, the federal backstop authority kicks in. In other words, if a state says no, the backstop authority kicks in. She added that if the state approval is conditioned in such a manner as to make it infeasible, the backstop authority kicks in. **Mr. Gibson** commented that there has not been an experience in the west where a transmission line has been ultimately turned down by a state.

Senator Gannon asked about significant technological improvements that would increase transmission capabilities. **Mr. Gibson** stated that there has been improvement in solid state controls. He explained that transmission lines have to be controlled within a very narrow spectrum of variation and if they get outside of that spectrum, the generators start turning off and a kind of chain reaction begins. This is the kind of general collapse that happens in the northeast. Power system controllers are looking at technology from direct current (DC) transmission. He said there are two major DC lines in the west at this time. **Senator Gannon** asked if there are retrofitting possibilities with moving some of the AC lines to DC lines. **Mr. Gibson** said that is possible but that would probably not be economically viable. DC lines

require expensive substations at both ends.

Mr. John Williams, BPA, was introduced to speak to the committee regarding BPA's role in the energy arena in Idaho. **Mr. Williams** said that BPA is working on technology that is used to increase the voltage in transmission lines. Several years ago they had to go to Congress to get extra warrant authorities to allow BPA to build transmission lines. They also have tried to use the nonwire technologies.

Mr. Williams explained that BPA is a federal power marketing agency that started in 1937 to take the power that was being generated from the federal hydro system. BPA was authorized to build transmission lines in most of the pacific northwest to meet the loads of the various utilities.

Mr. Williams said that in the early 1960s, BPA recognized a need for importing generation and saw a great opportunity for that with southern California since their peaking is in the summer and most of the pacific northwest peaks in the winter. BPA built a DC line from the northwest into Los Angeles that has worked very well for many years. BPA also entered into the Canadian Treaty that helped Canada build several hydro facilities that in turn allowed BPA to store water for the northwest.

In the 1970s BPA became a self-financing agency. This means they pay for everything they do including the construction and operation of 31 hydro plants and one nuclear plant in the pacific northwest. BPA operates on a cost base, meaning that the rate they provide the city of Seattle is the same rate as the city of Idaho Falls. This is the same for transmission. **Mr. Williams** noted that BPA has always allowed other utilities access to their transmission system.

The 1992 national Energy Policy Act set the stage for FERC to deregulate the wholesale energy industry. **Mr. Williams** said that BPA is 100% wholesale and sells to public utilities and to direct service industries as well as municipalities and cooperatives. **Mr. Williams** said that as a result of all of these events, BPA reorganized itself to meet a new marketing environment. At this stage, BPA is trying to balance a lot of needs including fishing, navigation, flood control, recreation and power generation.

One of the reasons BPA is looking at allocating its resources is due to the fact that in 2000-2001 when the energy crisis happened, they had to go out to the market to acquire 3,100 megawatts of power. The need for this much power was a result of entities that played the deregulation market. According to **Mr. Williams**, when this market went upside down, these entities came to BPA asking them to meet their load. In acquiring this additional power, BPA had to raise its rates 49%. The region did not like that. So post 2012, BPA is hoping to go to an allocation scheme that would give their utilities the lowest cost rate possible for certain amounts of megawatts based on specific methodology. After the utilities reach that level of megawatts, BPA is trying to come up with a tiered system that would provide more power at a higher price.

Senator Gannon asked what the loss of the lower four Snake River dams would do to BPA's

wind capacity. **Mr. Williams** said that BPA does not think those dams are as inefficient as people say. They are used heavily for shaping of wind and for peaking. Transmission coming from Montana is also helped by those dams because it affects voltage support. Without those dams to help with voltage support there will not be generation available to help with shaping, so wind will be affected.

The next meeting of the committee is scheduled for July 11 at 9:00 a.m. and will only be a one day meeting. **Senator McKenzie** said that by that time the cochairmen will have appointed chairmen of the various subcommittees so they can get started scheduling their meetings and so on. He added that committee members need to identify members of the public that would be helpful to the subcommittees to serve as volunteer members of those committees also.

In response to a question from **Representative Stevenson, Senator McKenzie and Representative Eskridge** agreed that water would be a topic covered under the generation subcommittee.

Representative Bell said she was concerned with how to involve the public and suggested that some type of survey might reach more people than just those who will serve on the subcommittees. **Senator McKenzie** said that the subcommittees are going to gather the information and see where Idaho is on the various issues, learn what other states are doing and what effects different policies would have. Then the whole committee will decide what recommendations to make. He said, in his opinion, that is the time that it would be appropriate to get public input through a survey and this could coincide with the BSU Energy Policy Institute (EPI) survey. **Representative Bell** said this could also be a separate special survey done through the EPI. If so, she said they would need to submit a proposal for the cost of doing this. **Mr. Mike Louis** from EPI said that some of the costs of a survey were included in their original proposal. He said it depends on the size of a survey and the number of people the committee wants to reach. He noted that repeatability is also an issue and that it would be better to do a separate survey because the survey **Senator McKenzie** referred to deals with policy issues. **Senator Gannon** said, in his opinion, a survey would be more valuable as the committee starts getting recommendations and knows more of the direction it wants to take. **Representative Jaquet** asked for a proposal from EPI at the next meeting for the cost of a survey of 10 or 12 questions sent to either 600 or 1,200 people. **Representative Eskridge** agreed that a proposal would be in order so the committee can get an understanding of the cost of a survey and what it would contain.

Senator Kelly asked for the time frame involved for survey results. **Mr. Louis** said about 1 ½ to two months to get the questions developed, the survey performed and an analysis of the responses completed. He did agree that it would be more valuable to wait until the committee has a better understanding of what kind of questions it wants to ask. **Representative Jaquet** noted that the survey could also run at the same time the public meetings are being held.

Representative Jaquet asked for a report from committee members going to Bismark, North Dakota to visit a coal gasification plant at the next meeting.

The meeting was adjourned at 12:45 p.m.