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May 22, 2009

MEMORANDUM

TO: Power Committee

FROM: Terry Morlan

SUBJECT: Proposed Resource Portfolio

I believe that we caused a misunderstanding of the process of choosing a resource portfolio in the Walla Walla meeting. We created the impression that the choice of a resource portfolio was primarily a choice regarding cost and risk along the efficient frontier, and that those measures had a direct relationship that could be optimized in some sense to decide on the best plan.

The primary purpose of the Resource Portfolio Model (RPM) is to locate plans that are on the efficient frontier. Such plans are all least cost plans. And while, as you move from plans near the low cost end of the frontier toward the low risk end, you are investing in reduced risk, the nature of the changing resources is more important than the measure of risk itself. The plans along the frontier all develop large amounts of conservation, and RPS resources are required in all cases, but beyond those resources similarities cease. In the least cost plan all additional resource needs are met by relying on the market. In the least risk plan additional regional resources are optioned to meet needs.

Given this information, here are some points to consider. They are the reason staff recommends the least risk plan.

- The least risk plan is the one with the most stable electricity cost (and prices). Price stability and assurance of adequate supplies has been the hallmark of regulation and utility planning.
- The least risk plan builds resources, instead of relying on the market. An individual utility might rely on the market for some period, but to recommend that the whole region do it likely would result in shortages and higher and more volatile electricity prices.
- Because the low risk plan includes resource recommendations other than the market, it provides guidance to the region on the types of resources that are most cost effective and least risky. If we used the least cost plan, the only guidance we can provide the region is to do the conservation, and when you run out of that rely on the market. Nothing about

renewables, gas-fired resources, or any other recommended directions to guide Bonneville or individual utilities whose needs may be different than the region.

- A very practical reason for choosing either the least cost or least risk (although staff would recommend least risk for the reasons above) is that we can identify a particular plan on the frontier that is the minimum. All others are intermediate and cannot be consistently identified for comparison between, for example, the no-carbon-policy case and the base case.
- Finally, in terms of the 5-year action plan, there is little difference between the least cost and least risk plans. There is no need to option additional resources beyond conservation or required renewables (for energy purposes) during the first five years.

We will have a discussion of these issues at the power committee to see if we can clarify the choice before the Council and reach a basis for completing the draft plan.