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August 6, 2010

Brian Finneran
Oregon DEQ,
Air Quality Division
811 SW 6th Avenue
Portland, Oregon 97204

Via Email

Re: Fiscal Advisory Committee Comments

Dear Brian:

Thank you for the opportunity to represent the interests of the Sierra Club, Northwest Environmental Defense Center, Friends of the Columbia Gorge, Columbia Riverkeeper, and Hells Canyon Preservation Council at the August 4, 2010, Fiscal Advisory Committee meeting. We appreciate the opportunity to provide input on the fiscal impacts of DEQ's proposed BART options on electricity rates.

PGE presented new information about estimated costs and rate impacts of the early closure options that are similar to options that PGE has been exploring in the Integrated Resource Planning process at the Public Utility Commission over the past year or so. For the first time, PGE stated that the company evaluated the availability of gas capacity in the region for purchase through a Power Purchase Agreement (PPA). Moreover, PGE stated that its implementation of the sulfur dioxide controls required by DEQ Option 2 (2018) would be predicated on being able to avoid compliance with the Particulate Matter 2.5 (PM2.5) National Ambient Air Quality Standards. We look forward to the opportunity to provide feedback to the agency on these and other new pieces of information during the public comment period. Hopefully, all comments thus far received by DEQ can be posted to DEQ's website so that we may begin our analysis of new information and the concerns of other parties to prepare our comments.

With regard to the fiscal impacts analysis presented by PGE on August 4, we have two primary comments. First, PGE's new "BART III" option, along with DEQ's Options 1 and 2, continue to raise serious concerns about future investment required at Boardman to comply with

future federal regulations and potential remedies in the federal litigation regarding the plant. Second, the extent of rate increase predicted by PGE for the various options are highly suspect.

First, the fiscal impacts analysis should take into account whether each option avoids future investment in the coal plant. At the Fiscal Advisory Committee meeting, DEQ was asked whether the BART options that it prepared, or PGE's new proposal, would satisfy the requirements of anticipate federal toxic air pollution rules (Coal Plant MACT). DEQ indicated that it did not take Coal Plant MACT into account when developing the BART options because that rule has not yet been released (expected early 2011). The fact remains, however, that when looking at fiscal impacts to ratepayers, all rate increases matter. Operating Boardman until 2020 or 2018 under PGE's new BART III or DEQ's Options 1 or 2, would expose the company, and ratepayers, to the risk of having to make significant new investments in pollution controls to bring the Boardman plant into compliance with federal Maximum Available Control Technology ("MACT") requirements for harmful air pollutants and (b) satisfying federal air emission laws that are currently at issue in Boardman-related litigation. DEQ Option 3, closure of Boardman in 2015 or 2016, remains the most likely alternative to allow PGE to avoid significant and costly new pollution control upgrades. Thus, the fiscal impact of DEQ Option 3 is significantly lower than that of later shutdown options.

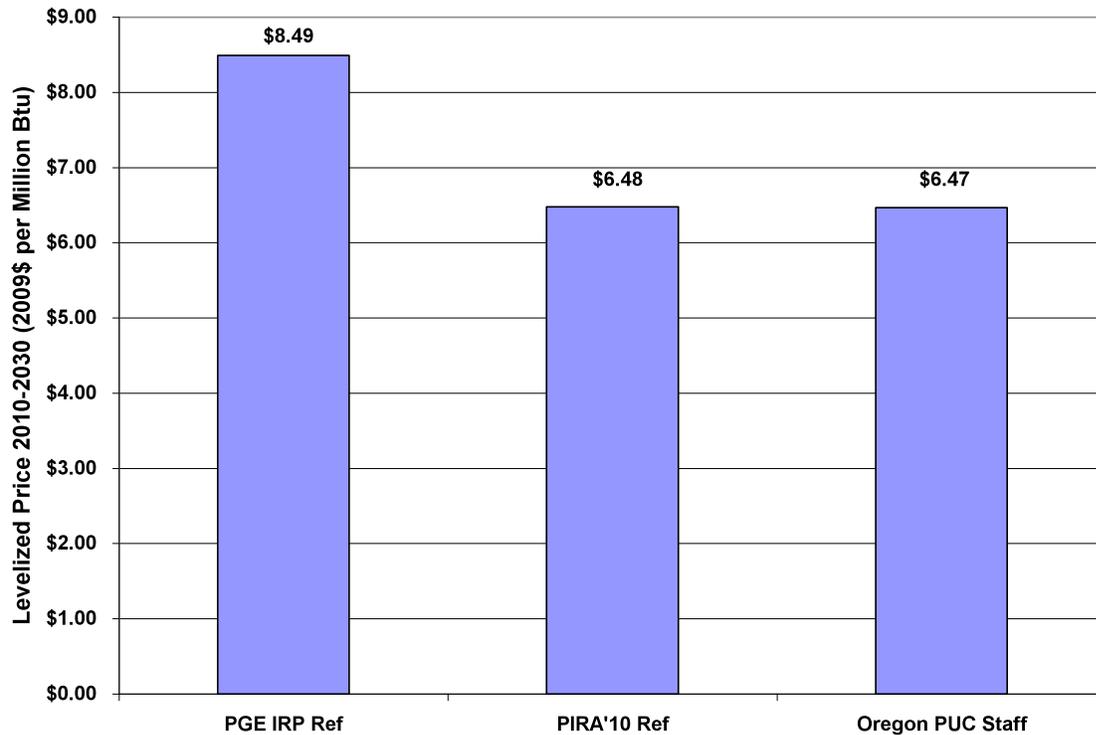
Second, PGE presented estimated combined rate impacts of the cost of required pollution controls and replacement power. PGE claimed that its 2020 BART III proposal will have lower impacts through 2021 than any of the DEQ options. For example, PGE claims that BART III would mean an average rate increase between 2011 and 2021 of 2.4% as compared to DEQ Option 1 (4.6%), DEQ Option 2 (3.2%) and DEQ Option 1 (3.9%).

Even though we have not had an opportunity to review the workpapers in which these average rate increases were developed, we asked our economics consultant to review the power point provided by PGE. My clients have retained David Schlissel of Schlissel Technical Services to provide a technical analysis of the PGE 2009 Integrated Resource Plan. His expertise also allows him to provide input on DEQ's fiscal impacts analysis. By way of introduction, since 1973, Mr. Schlissel has served as a consultant, expert witness, and attorney on complex management, engineering, and economic issues, primarily in the fields of energy and the environment. Mr. Schlissel has been retained by regulatory commissions, state and federal governmental agencies, publicly-owned utilities and private environmental and consumer organizations to prepare expert analyses on issues related to electric, natural gas, and telephone utilities. As part of this work, he has presented expert testimony in more than 100 proceedings before regulatory boards and commissions in 30 states, two federal regulatory agencies, and in state and federal court proceedings. Mr. Schlissel holds BS and MS degrees in Astronautical Engineering from the Massachusetts Institute of Technology and Stanford University. He received a Juris Doctor degree from Stanford University School of Law. He has also studied Nuclear Engineering and Project Management at MIT.

Mr. Schlissel's initial review of PGE's rate impact analysis indicates that PGE's analysis is extremely suspect for the following reasons:

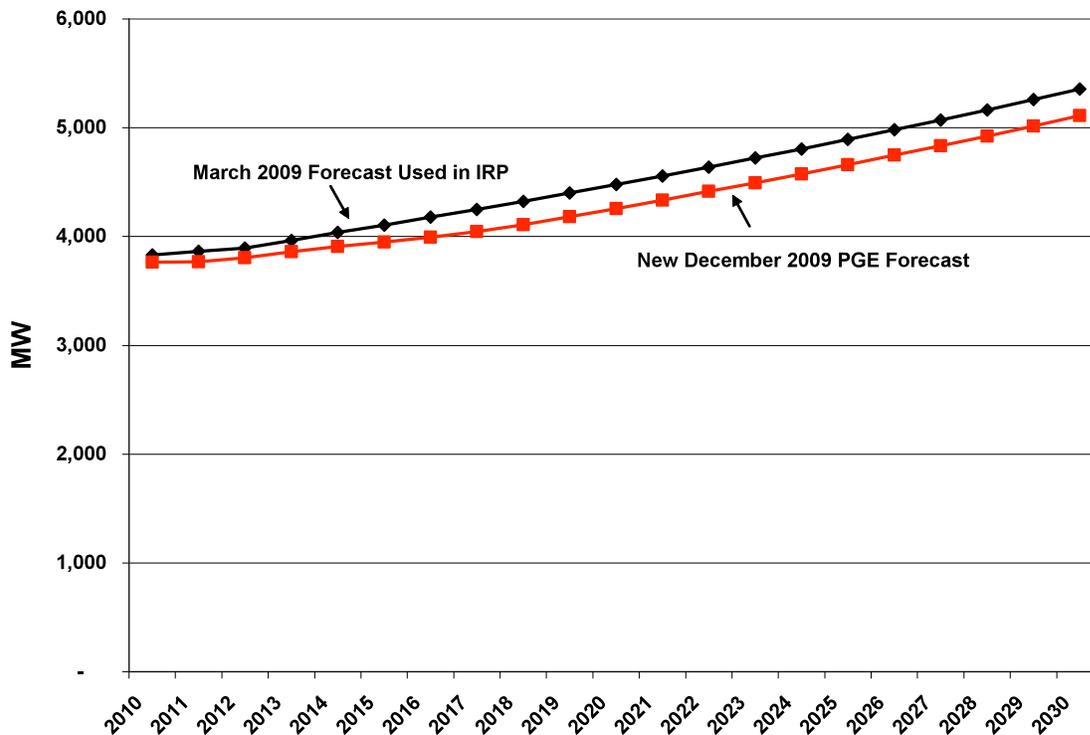
First, PGE has indicated that any new analyses of the economics of continuing to operate Boardman would use the same out-of-date natural gas prices as were used in its 2009 Integrated Resource Plan (IRP) modeling. As shown below, these natural gas prices are significantly higher

than (1) the staff of the Oregon Public Utilities Commission projects for the next decade and (2) that the Company's own consultant currently forecasts.



In fact, the 2009 IRP natural gas prices that we believe PGE has used to develop its claimed rate impacts, are more than 30 percent higher than either the Oregon PUC staff or PGE's own consultant now project. The use of such unreasonably high gas prices will bias the entire comparison against the early retirement options (especially DEQ Option 1) that assume that Boardman would be immediately replaced by a natural gas-fired combined cycle generating facility. As a result, any economic comparisons based on PGE's 2009 IRP natural gas prices (such as those submitted by PGE to the DEQ or the Oregon PUC) have no probative value whatsoever.

Second, PGE's assumption that it would have to immediately replace the Boardman plant by building a new combined cycle power plant also is suspect. PGE has not provided an analysis of the technical and economic feasibility of other alternatives for replacing the capacity and energy from Boardman. In addition, the company has adopted new, and lower, peak load and energy sales forecasts that suggest that it would not have to replace all of Boardman if the plant were retired in 2015 or 2016. The following chart demonstrates PGE's new, lower, load forecast for 2010 – 2030.



Considering PGE’s overestimate of gas prices and future load, it is reasonable to expect that the cost of DEQ Option 3, closure of Boardman in 2015 or 2016, will be lower (perhaps, significantly lower) than PGE is now claiming. Any new analyses of the relative economics of the DEQ Options, or, indeed, closure of Boardman in any year, should be based on the company’s current natural gas price forecasts and its current load and energy forecasts.

In conclusion, a full technical analysis of PGE’s rate impact claims is necessary for full understanding of the fiscal impacts of DEQ’s (and PGE’s) new proposals. These two variables, natural gas prices and future load, have a tremendous impact on PGE’s estimation of the cost of replacement power under any of the early shutdown scenarios. For that reason, the rate impact of the cost of required controls alone is the only verifiable fiscal impact of the BART options.

Thank you for considering these comments in drafting the fiscal impact report. Mr. Schlissel is available to meet via conference call with DEQ to explain his findings further. Please let us know if you need more information.

Sincerely,

/s/ Aubrey Baldwin

Aubrey Baldwin
 Counsel for Sierra Club, Northwest Environmental Defense Center,
 Friends of the Columbia Gorge, Columbia Riverkeeper, and
 Hells Canyon Preservation Council

cc: Andy Ginsburg