Oregon

Theodore R. Kulongoski, Governor

OREGON
DEPARTMENT OF
ENERGY

625 Marion St. NE
Salem, OR 97301-3737
Phone: (503) 378-4040
Toll Free: 1-800-221-8035
FAX: (503) 373-7806
www.Oregon.gov/ENERGY

Mark Walker
Director of Public Affairs
Northwest Power & Conservation Council
851 SW 6th Avenue, Suite 1100
Portland, Oregon 97204-1348

Thank you for the opportunity to comment on the *Preliminary Draft Fuel Prices for the Sixth Power Plan*.

In general, the price forecasts in the draft are much lower than what markets, market volatility, future supply-constrained, and higher growth conditions may cause. While it is true that an "expected and sudden" decrease in demand for crude oil has lowered current prices and immediate/short-term future forecasts, there is enough evidence of a future of constrained supply, issues of peak-oil and continued demand for fossil fuels in emerging economies, that crude oil prices will be forced higher than what the report indicates.

Natural gas prices are driven to a significant extent by oil prices, and the U.S. Energy Information Administration's oil supply forecasts looking out to the year 2030 may be overestimated with prices underestimated. Please conduct scenario analyses using the high natural gas prices suggested by the Oregon Public Utility Commission.

This draft plan is an improvement over the earlier version as the report identifies "uncertainty" in long term trends, supply and demand inequities and short term volatility due to natural hazards and/or inventory management issues.

However, the very basic price data being used for forecasting is an underestimation of prices and does not reflect natural hazards and supply issues. More specifically, with a continued increase in population growth (and demand for automobiles and other fossil fuel powered resources), this report is not accounting for the demand-supply inequity that is going to affect global economies. The report is also not making any note of future energy policy which may have an impact on future supply related decisions (reserve depletion and related supply availability factors) and specifically, the long-term acquisition efforts by emerging economies of contracts for LNG and coal from respective resource rich countries.

The authors of the report acknowledge on page 14, that retail price forecasts of world oil are based on simple historical relationships between wholesale oil prices and retail prices. Forecasting approaches are now more sophisticated than this and would account for specific other market factors and not just historical trends.

The report cites an abundant resource of coal in the western states and its low-sulfur content to be a factor in providing more energy with reduced SO_2 emissions. The report is lacking information on sub-bituminous coal having relatively higher mercury content which can be a factor in higher post-combustion control costs, in addition to higher parasitic load associated with poorer quality coal in comparison to the eastern region reserves. Coal price forecasts are also understated by the authors. The Energy Information Administration's 2008 Outlook report cites coal prices to be much higher at $2.76 per million Btu compared to the report's Page 16 that cites a high case of barely $0.65.

Again, please consider a wide range of estimates for oil prices, run some very high-cost scenarios and build some resiliency into your planning.

Sincerely,

Diana Enright
Assistant Director
Oregon Department of Energy