BEFORE THE UTAH PUBLIC SERVICE COMMISSION

IN THE MATTER OF THE APPLICATION OF	)	
PACIFICORP FOR APPROVAL OF A 2009 REQUEST	)	Docket No. 05-035-47
FOR PROPOSALS FOR FLEXIBLE RESOURCE	)	

COMENTS OF WESTERN RESOURCE ADVOCATES

Pursuant to the Utah Public Service Commission's (Commission) July 20, 2005 Scheduling Order in the captioned docket, Western Resource Advocates (WRA) requests that the Commission accept the following comments on PacifiCorp's 2009 Request for Proposals for Flexible Resources (2009 RFP). WRA's comments are divided into two parts. Part one provides specific comments on the 2009 RFP. Part two provides more general comments on resource planning issues.

I. Comments on 2009 RFP

Eligible Resource Exceptions: WRA supports the inclusion of small-scale distributed resources of 3 MW or more and load curtailment of 25 MW or more as resource alternatives in the 2009 RFP. These types of resources can help meet the Company's resource needs at potentially lower cost and at reduced environmental impacts relative to supply-side alternatives, and may help alleviate transmission constraints. The inclusion of these resources in this 2009 RFP is an important step towards procuring these types of demand-side resources. However, as the Company acknowledges, an RFP process that is designed principally to solicit large-scale supply side resources will not be sufficient, in itself, to identify and procure the full cost-effective demand-side resource potential. There may be distributed resources available that do not meet the minimum size requirements, capacity and dispatch requirements and/or the in-service timelines under the 2009 RFP but nonetheless could help defer or reduce the need for additional large-scale supply side generation. This deferral value could prove particularly significant given the tremendous uncertainty surrounding future natural gas prices and future environmental requirements.

WRA does not contest the size, dispatch and timing limits on eligible distributed resources that may bid into this RFP because the Company has indicated it will continue to seek demand-side resources that fall outside the scope of the 2009 RPF through other channels. With this understanding, and provided the Company follows through on this representation, WRA supports the Company's approach as reasonable.

CO2 Proxy Cost Adder: WRA supports the inclusion of the CO2 proxy cost adder in the evaluation of bids. As WRA notes in its Comments on the 2004 IRP, the current CO2 cost assumption of $8 per ton of CO2 is at the low end of the range of reasonable values for base case assumptions.

The 2009 RFP directs bidders that they should submit bids based on the assumption that they may pass through any costs associated with meeting future air quality requirements. This represents a departure from previous RFP's, where bidders were given the option of internalizing the risk of future environmental costs into their bid prices. Given the history of this issue in previous RFP's, WRA understands why PacifiCorp would be inclined to make this change. The most important point is that future costs of complying with carbon dioxide regulations are reflected in the bid evaluation process, which this 2009 RPF accomplishes. However, one potential downside of *requiring* bidders to pass through future environmental compliance costs is that the Company could miss out on the opportunity to encourage innovative project proposals. The inclusion of an imputed CO2 cost adder in the RFP evaluation process does provide an incentive for bidders to propose more efficient units, which is undoubtedly important. However, it may not provide adequate incentive for them to propose other types of carbon emissions control strategies. For example, a project could be configured up-front to make it capable of capturing and storing carbon at a future date without the need for expensive retrofits.[1] Yet, even if such a bid could provide significant ratepayer and environmental benefits, it could be placed at a competitive disadvantage in the evaluation process due to the increased capital costs. Similarly, it would also appear that a bidder could be penalized in the evaluation process for proposing cooling technologies that minimize water use.

In its July 21, 2005 Report and Order on PacifiCorp's 2004 IRP, the Commission solicited input on blending the IRP process, action plan and implementation of Senate Bill 26. SB 26 requires consideration of risk, along with information on the external environmental and economic consequences of the Company's resource plan. *See* U.C.A. § 54-17-101(3)(d). Until regulations implementing SB 26 can be developed, WRA suggests that the Company revise Section (4)(A) of its 2009 RFP to encourage bidders to submit innovative bids to address future air quality requirements and other environmental impacts including CO2 emissions and water use. Bidders should be directed to provide an explanation of the innovative aspects of their bids, along with information on why they are justified from an economic and environmental perspective.

II. Comments on Integrated Resource Planning Issues

In its July 21, 2005 Report and Order, the Commission requested that parties provide comments within the context of the RPF approval process to ensure that concerns raised in the IRP docket are brought forward in this docket. WRA and Utah Clean Energy submitted detailed comments in the IRP docket, which are hereby incorporated by reference. WRA would also like to highlight two issues raised in our IRP comments

[1] For example, PacifiCorp states in its responses to stakeholder comments that, if the potential for carbon capture facilities is included in the costs of an integrated gasification combined cycle (IGCC) project, it could increase capital costs by 5 to 10 percent. *See* Request Set 4, Response to Question 7. The potential for carbon capture and storage could very well be worth a 5 to 10 percent cost premium, both as a hedge against potentially much greater environmental compliance costs in the future and to improve the environmental performance of the project.

that are particularly relevant to the 2009 RFP. These issues relate to the Company's near-term and long-term strategies for renewable resource acquisition.

Status of Renewable RFP 2003-B: The 2004 IRP modeling analysis -- which serves as the basis for the 525 MW of flexible resources that are at issue in this 2009 RFP -- was premised on the addition of 1,400 MW of renewable resources to the PacifiCorp system. The 2004 IRP modeling analysis demonstrated once again that an additional 1,400 MW of renewable resources would be cost-justified, in significant part as a hedge against natural gas price risk. Without the addition of the wind resources to the mix, ratepayers could be taking on significantly more natural gas price risk than was contemplated by the IRP analysis.

As stated in our IRP comments, WRA continues to be troubled by the slow rate of progress of, and the Company's level of commitment towards, finalizing contracts resulting from its Renewable RFP 2003-B. Since the 2003 IRP was released, the Company has contracted for two new gas-fired power plants totaling 1,059 MW. Now, with the release of this 2009 RFP, the Company will be soliciting bids for 525 MW of flexible resources, which is likely to result in the addition of another large gas-fired generating unit on the system. The Company first issued its RFP 2003-B for renewable resources in February 2004, with bids due at the end of March 2004. The Company received over 6,000 MW of renewable resource bids for dozens of proposed projects. Yet, the Company has only executed one renewable contract to date, for a 64.5 MW wind project in Idaho – equal to slightly more than one percent of the renewable resource bids received.

We recognize the uncertainty and unsettling market conditions that have resulted from erratic Federal policy on the renewable production tax credit and the current wind turbine shortages. However, bids were received in response to RFP2003-B in March 2004. We question why more progress was not made in early and mid 2004 before these pressures on turbine prices and availability became more pronounced. Further, while wind prices may have increased in 2005, natural gas prices have increased significantly during this timeframe as well.

With the recent extension of the renewable energy production tax credit (PTC) through 2007, the Company should redouble its efforts to acquire additional renewable resources as expeditiously as possible to qualify for the PTC. We are encouraged by the Company's announcement that it has re-engaged discussions with bidders in the RFP 2003-B solicitation process. The Company and the Commission should make it clear that these negotiations are a priority. The Company should not allow these negotiations to become sidetracked by this 2009 RFP docket, the MidAmerican acquisition, or other pressing matters. We recommend the Company place particular emphasis on locating viable projects on the East side of the system, where first-hand knowledge of the impacts of wind on the transmission grid could prove particularly valuable.

Long-Term Strategy for Renewable Energy Development: In addition to an aggressive near-term acquisition strategy for wind, the Company should take steps now to develop a longer term strategy for renewable energy development beyond the 1,400 MW currently modeled in the IRP. The 2004 IRP's Capacity Expansion Model (CEM) sidebar study suggests that renewable resources beyond the 1,400 MW would be an economical and environmentally beneficial addition to the Company's resource fleet over the intermediate and long term. Figure J.1 (Appendix J, p.145) graphs the ratio of costs of the wind bids received in response to RFP 2003-B to the forward price curve. The Company received more than 6,000 MW of resources in response to the RFP 2003-B, of which 85% were from wind resources. The chart indicates that approximately 1,400 MW of those bids were at or below the Company's forward price projections, that an additional 900 MW of renewables were priced at only 10% above the Company's projections, and that an additional 800 MW on top of that were available at a price of 20% above the Company's forward price projections. A revised analysis to include current natural gas price projections could show that wind resources within the 10% band and possibly the 20% band would be at or below updated forward price projections.

We believe that the price stability and emissions reduction benefits of renewable energy more than justify the acquisition of renewable resources within such a narrow band of the Company's forward price projections. Unlike gas-fired and coal-fired resources, the Company has a high degree of certainty as to the long-term costs of renewable energy resources at the time of contracting for the resource and can lock in fixed prices for decades. Renewable resources are largely immune from the tremendous fuel price volatility that has plagued gas-fired generation and, to a lesser extent, coal costs. Further, renewable resources are not subject to the risk of future environmental regulatory requirements including future climate change regulations, which could dramatically affect the long-term economics of conventional pulverized coal-fired generation in particular.

One of the most promising long-term resource options would be to tap into the extraordinary wind resource potential in central and southern Wyoming that is currently transmission constrained. WRA would like to repeat its strong objections to the current modeling of the Rocky Mountain Area Transmission Study (RMATS) transmission expansion from Southwest Wyoming into the Wasatch Front as Portfolio Q. Portfolio Q calls for 958 MW of conventional coal-fired generation at Jim Bridger but no additional wind resources. The Company's IRP modeling analysis shows that this scenario would impose substantial costs and risks on ratepayers and it should be rejected. Wyoming is blessed with some of the premiere wind resources in the world, whose potential for supplying clean energy is restricted only by available transmission. The RMATS process identified upwards of 1,150 MW of wind in Southern Wyoming that could be accessed by expanding transmission access from Miners through Jim Bridger to the Wasatch Front.[2] The full wind potential in the region is orders of magnitude higher than the RMATS estimates. WRA estimates the wind potential in Wyoming at 882,547 Gigawatt-hours per year.[3] However, none of this additional wind is reflected in Portfolio Q. The Company should reconstitute Portfolio Q to include substantial new wind resources and

[2] Rocky Mountain Area Transmission Study, pp.2-16 to 2-17.
[3] Western Resource Advocates, *A Balanced Energy Plan for the Interior West,* p.19, Figure 2.2 (available at http://www.westernresourceadvocates.org).

possibly integrated gasification combined cycle (IGCC) development for consideration in the next IRP cycle.

WHEREFORE, WRA respectfully requests that the Commission accept these comments on the 2009 RFP.

Respectfully submitted,

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