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**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

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In the Matter of the Acknowledgment  
of PacifiCorp's Integrated Resource  
Plan 2007

DOCKET NO. 07-2035-01

**COMMENTS AND RECOMMENDATIONS  
OF THE UTAH ASSOCIATION OF  
ENERGY USERS ON PACIFICORP'S 2007  
IRP**

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The Utah Association of Energy Users ("UAE") hereby submits its response to the request of the Utah Public Service Commission ("Commission") for comments on PacifiCorp's 2007 Integrated Resource Plan ("IRP").

**Summary**

UAE commends the efforts of PacifiCorp and others in connection with this IRP. UAE continues to have several concerns about various aspects of the IRP and planning processes. However, in contrast to its position on recent IRPs, UAE has concluded that this IRP generally satisfies the Commission's published IRP Standards and Guidelines and that it can properly be acknowledged by the Commission.

While supporting acknowledgment of the IRP, UAE has several remaining comments, concerns and suggestions, including the following:

- PacifiCorp should more aggressively pursue and implement customer-based alternatives including Demand Side Management (DSM) programs, combined heat and power (CHP), Qualifying Facilities (QF), interruptible contracts and cost allocation/rate design changes. Moreover, additional incentives for these efficient resources should be encouraged.
- The IRP's wind and renewable resource targets may be aggressive, but UAE supports acquisition of all available cost-effective renewable resources. In determining cost-effectiveness of renewable resources, the costs of necessary transmission and generating infrastructure should be properly measured and included.
- UAE has concerns about increased reliance on East side natural gas resources for baseload electric needs. Natural gas prices are extremely volatile and large gas-fired power plants place a tremendous strain on availability and pricing of natural gas in Utah. Distributed generation, cogeneration and combined heat and power applications best take advantage of efficiencies available for natural gas fired electric generation. In addition to the pursuit of all available cost-effective renewable and customer-based resources, UAE supports the development or acquisition of additional coal resources for baseload generation. Furthermore, UAE supports active consideration of nuclear resources to meet longer-term baseload needs.
- PacifiCorp should take all necessary steps to ensure that all IRP models and input data will be made available to regulators and other participants on an ongoing basis, subject to appropriate confidentiality protections, in order to permit better testing and validation of IRP assumptions and modeling.

- PacifiCorp should consider the use of less cumbersome and more transparent and available IRP models.
- Past delays in pursuing generation and transmission options have created significant difficulties and risks going forward, along with a significant likelihood of increased costs for customers. In an effort to avoid similar issues and impacts going forward, the Company should be advised to take all necessary and timely steps to development or acquisition of the most cost-effective and reliable baseload resources, including coal and nuclear.

### **Comments and Recommendations**

Commission review of an IRP should be aimed at three important goals: (i) determining whether the IRP is sufficiently consistent with the Commission’s published Standards and Guidelines to warrant acknowledgment; (ii) providing feedback on how the IRP process can be improved in the future; and (iii) providing specific “review” and “guidance” to the utility under Utah Code §§ 54-17-101, et seq., on the proposed action plan.

UAE has organized its comments and suggestions on the IRP in response to each of the existing Standards and Guidelines. Each of the Standards and Guidelines is provided in bold, followed by UAE’s comments as to the IRP’s consistency with the same, UAE’s recommendations on improvements that should be encouraged, and any suggestions for guidance that should be provided on the action plan.

**1. Integrated resource planning is a utility planning process which evaluates all known resources on a consistent and comparable basis, in order to meet current and future customer electric energy services needs at the lowest total cost to the utility and its**

**customers, and in a manner consistent with the long-run public interest. The process should result in the selection of the optimal set of resources given the expected combination of costs, risk and uncertainty.**

*UAE Comments:* The IRP appears generally to satisfy this requirement. It makes a good faith attempt to evaluate resource options on a consistent and comparable basis and to identify a portfolio of resources designed to minimize risk and cost. The Company's preferred portfolio includes significant new baseload coal resources, which UAE has supported for some time. Unfortunately, UAE fears that, as it has repeatedly warned in the past, inadequate lead time was built into generation and transmission resource analysis and procurement. The passage of critical time has resulted in reduced resource options and higher costs for ratepayers. Such concerns, however, are not relevant to a forward-looking planning process such as the IRP, other than to try to ensure that similar mistakes are not repeated in the future.

UAE has repeatedly warned about unintended consequences of building large natural gas-fired electric plants to meet baseload electric needs. Natural gas prices are extremely volatile and competition from gas-fired power plants increases local prices and volatility, harming Utah industries and the Utah economy. Natural gas for baseload electric generation purposes is most efficiently used for distributed generation, cogeneration and combined heat and power applications. Such applications should be further incentivized in order to increase efficiency and benefit customers at the same time.

UAE also supports active consideration of nuclear resources to meet longer-term baseload needs. To the extent coal resources become impracticable or overly expensive due to political or other considerations, nuclear power is a logical long-term alternative.

**2. The Company will submit its Integrated Resource Plan biennially**

*UAE Comments:* The Company has complied with the requirement for biennial IRP filings. UAE has previously recommended, and continues to support, a revision to the Standards and Guidelines to require annual IRP filings so long as significant resource additions are projected.

**3. IRP will be developed in consultation with the Commission, its staff, the Division of Public Utilities, the Committee of Consumer Services, appropriate Utah state agencies and interested parties. PacifiCorp will provide ample opportunity for public input and information exchange during the development of its Plan.**

*UAE Comments:* PacifiCorp has actively solicited public input, for which it should be commended. However, UAE believes that the quality of public input will be significantly increased if the regulators and other interested parties are permitted to access, operate and verify all of the data, spreadsheets, models and information used in the IRP. Also, PacifiCorp continues to use very complex custom modeling tools rather than modeling programs that have been tested and vetted over the years in the market. UAE urges consideration of alternative modeling approaches.

**4. PacifiCorp's future integrated resource plans will include:**

**a. A range of estimates or forecasts of load growth, including both capacity (kW) and energy (kWh) requirements.**

**i. The forecasts will be made by jurisdiction and by general class and will differentiate energy and capacity requirements. The Company will include in its forecasts all on-system loads and those off-system loads which they have a**

**contractual obligation to fulfill. Non-firm off-system sales are uncertain and should not be explicitly incorporated into the load forecast that the utility then plans to meet. However, the Plan must have some analysis of the off-system sales market to assess the impacts such markets will have on risks associated with different acquisition strategies.**

**ii. Analyses of how various economic and demographic factors, including the prices of electricity and alternative energy sources, will affect the consumption of electric energy services, and how changes in the number, type and efficiency of end-uses will affect future loads.**

*UAE Comments:* The IRP evaluates various load growth projections and assumptions and generally satisfies this requirement. However, UAE continues to doubt that the IRP has adequately tested for or assumed customer responsiveness to aggressive cost allocation/rate design changes or DSM programs.

**b. An evaluation of all present and future resources, including future market opportunities (both demand-side and supply-side), on a consistent and comparable basis.**

**i. An assessment of all technically feasible and cost-effective improvements in the efficient use of electricity, including load management and conservation.**

**ii. An assessment of all technically feasible generating technologies including: renewable resources, cogeneration, power purchases from other sources, and the construction of thermal resources.**

**iii. The resource assessments should include: life expectancy of the resources, the recognition of whether the resource is replacing/adding capacity or energy, dispatchability, lead-time requirements, flexibility, efficiency of the resource and opportunities for customer participation.**

*UAE Comments:* The IRP appears generally to satisfy these requirements. UAE supports very aggressive pursuit of all cost-effective alternatives to traditional supply-side resources, including DSM, CHP, cogeneration and cost allocation/rate design changes. UAE believes that greater effort and more aggressive assumptions are warranted. UAE also strongly urges the abandonment of historical animosity for qualifying facilities and support for meaningful and realistic pricing and contract terms for QFs in order to encourage cost-effective QF and CHP development. The Energy Policy Act of 2005 increased efficiency and utilization requirements for QFs and no longer permits “PURPA machines.” These types of highly-efficient QF resources should be strongly encouraged and incentivized.

UAE also continues to support transmission additions and upgrades to delay supply side resources and provide flexibility. UAE believes that insufficient attention has been given to this resource in the past, leading to delays in needed upgrades and construction and increased customer prices. PacifiCorp claims now to have placed transmission resources on an equal footing with generation resources in the IRP. UAE urges continued evaluation of this issue to ensure that all cost-effective transmission options will be timely pursued.

UAE also has continued concerns about the modeling. UAE agrees with PacifiCorp that modeling alone cannot identify an optimal portfolio and that modeling is most appropriately used as an input into the resource decision-making process (IRP Appendix at 140). However, proper

modeling must treat all resources in a fair and unbiased fashion and the role and usefulness of the models should not be overstated. Using the Company's CEM model and PaR model, the Company constructed 12 risk portfolios and developed several metrics. In constructing the Group 2 portfolios, however, the CEM model was restricted to choosing only between gas plants and front office transactions. Wind resources were predetermined and were treated differently than the rest of the Group 2 portfolios. Coal resources were effectively set for all portfolios. The CEM model thus became primarily a tool for determining the timing of gas resources. Given these restrictions, it is difficult to know whether the Group 2 portfolios were the best portfolios to draw from in selecting the preferred portfolio. It is thus difficult to know whether the selected gas resources are optimal.

UAE supports the Company's planning margin cost-risk tradeoff analysis and the use of a 12% planning margin. The planning margin should be used as a tool to help evaluate timing for investment in new resources and not a measure of actual system reserves. The model runs in both Group 1 and Group 2 portfolios show relatively minor differences in costs, upper tail risks, energy not served, etc. between 12% and 15%. While these metrics do not capture all potential reliability issues associated with different planning margins, UAE believes that the use of a 12% planning margin has been adequately supported. Indeed, UAE complained in prior IRPs that the change to a 15% planning margin had never been adequately supported by a meaningful cost-risk tradeoff analysis. Additional analysis is warranted as to the planning margin--both higher and lower than 12%. Such analysis should also better incorporate macro economic principals such as supply and demand and price signals, specifically market response to extreme carbon risk, price caps, or other externalities.



UAE believes there is a significant risk of much higher natural gas prices if high carbon taxes are imposed. UAE submits that this relationship should have been more fully vetted in the Public Input Process and should be better explained. UAE fears that the full impacts on natural gas prices of carbon taxes or regulations have not been adequately captured in the assumptions or models. Simply stated, a dramatic increase in demand for natural gas for electric generation and industrial use resulting from carbon regulations or taxation may impact natural gas prices much more than assumed in the natural gas price forecasts used in the IRP. It is important that the potential risk of higher priced natural gas generation be accurately shown as one of the byproducts of avoiding more carbon intensive generation.

UAE is also concerned that the high carbon tax scenarios evaluated in the IRP may not adequately consider the widespread economic impacts that would likely result from such taxes or the likelihood of a resulting decrease in demand for electricity. Carbon taxes at some of the levels evaluated in the IRP would result in crippling economic consequences for many industries, likely resulting in significant reductions in electric demand.

**c. An analysis of the role of competitive bidding for demand-side and supply-side resource acquisitions.**

*UAE Comments:* PacifiCorp's IRP appears to comply with this requirement in that it promises the use of a robust RFP process consistent with legal requirements (IRP at 229). UAE restates its longstanding support for an open, fair, competitive RFP process as a crucial tool to the selection of the most desirable resources, regardless of ownership or affiliation.

**d. A 20-year planning horizon.**

*UAE Comments:* The IRP utilizes a 20-year planning horizon as required by the

Standards and Guidelines. However, that planning horizon may be inadequate for proper consideration of nuclear resource options.

**e. An action plan outlining the specific resource decisions intended to implement the integrated resource plan in a manner consistent with the Company's strategic business plan. The action plan will span a four-year horizon and will describe specific actions to be taken in the first two years and outline actions anticipated in the last two years. The action plan will include a status report of the specific actions contained in the previous action plan.**

*UAE Comments:* The IRP generally satisfies this requirement. However, an action plan limited to a ten-year period is now inadequate, given the expansive time required to build or acquire certain types of resources, including coal and nuclear. PacifiCorp has agreed to consider expanding this action plan window (IRP Appendix at 144). UAE strongly supports expansion of both the planning horizon and the action plan sufficient to accommodate all resource options, including nuclear.

**f. A plan of different resource acquisition paths for different economic circumstances with a decision mechanism to select among and modify these paths as the future unfolds.**

*UAE Comments:* The IRP proposes a strategy to comply with this requirement (IRP at 233-34). UAE continues to request more detailed and meaningful contingency plans that identify and explore available bridging resources, other resources and other actions that may be available if planned resources cannot be timely acquired in a cost-effective manner. UAE submits that the utility should better explore and explain such contingency plans.

**g. An evaluation of the cost-effectiveness of the resource options from the perspectives of the utility and the different classes of ratepayers. In addition, a description of how social concerns might affect cost effectiveness estimates of resource options.**

*UAE Comments:* The IRP appears generally to satisfy this requirement in that it attempts to evaluate cost-effectiveness of various resource options, it briefly discusses rate impacts, and it addresses certain social concerns. However, the ratepayer impact section (IRP at 164) is cryptic and not well explained. UAE would like to see a more comprehensive and understandable analysis of ratepayer impacts.

**h. An evaluation of the financial, competitive, reliability, and operational risks associated with various resource options and how the action plan addresses these risks in the context of both the Business Plan and the 20-year Integrated Resource Plan. The Company will identify who should bear such risk, the ratepayer or the stockholder.**

*UAE Comments:* The IRP's evaluation of risks appears generally to satisfy this requirement. As explained above, however, UAE is concerned about the risk of unintended consequences stemming from additional construction of East-side gas resources.

**i. Considerations permitting flexibility in the planning process so that the Company can take advantage of opportunities and can prevent the premature foreclosure of options.**

*UAE Comments:* The Company points to planning flexibility in the selection of its preferred portfolio in satisfaction of this requirement (IRP Appendix at 187). As explained

above, however, UAE submits that the Company should better address and explain contingency options and plans.

**j. An analysis of tradeoffs; for example, between such conditions of service as reliability and dispatchability and the acquisition of lowest cost resources.**

*UAE Comments:* Subject to UAE's other comments herein, the IRP's discussion of conflicts and tradeoffs between cost and risk appears generally to satisfy this requirement.

**k. A range, rather than attempts at precise quantification, of estimated external costs which may be intangible, in order to show how explicit consideration of them might affect selection of resource options. The Company will attempt to quantify the magnitude of the externalities, for example, in terms of the amount of emissions released and dollar estimates of the costs of such externalities.**

*UAE Comments:* The IRP's discussion of various externalities appears generally to satisfy this requirement.

**l. A narrative describing how current rate design is consistent with the Company's integrated resource planning goals and how changes in rate design might facilitate integrated resource planning objectives.**

*UAE Comments:* The IRP's discussion of rate design appears generally to satisfy this requirement. However, UAE submits that additional attention is warranted to the use of more aggressive cost allocation and rate design changes, as well as DSM, to better address the disproportionate peak demand growth in Utah.

**5. PacifiCorp will submit its IRP for public comment, review and acknowledgement.**

*UAE Comments:* The IRP was submitted for public review and comment in general satisfaction of this requirement. However, as discussed above, public and regulatory input to the IRP process would be significantly improved by greater access to data and models relied upon in the IRP process.

**6. The public, state agencies and other interested parties will have the opportunity to make formal comment to the Commission on the adequacy of the Plan. The Commission will review the Plan for adherence to the principles stated herein, and will judge the merit and applicability of the public comment. If the Plan needs further work the Commission will return it to the Company with comments and suggestions for change. This process should lead more quickly to the Commission's acknowledgement of an acceptable Integrated Resource Plan. The Company will give an oral presentation of its report to the Commission and all interested public parties. Formal hearings on the acknowledgement of the Integrated Resource Plan might be appropriate but are not required.**

*UAE Comments:* Interested parties have had an opportunity to make comments on the IRP and UAE has concluded that the Commission can properly acknowledge the IRP.

**7. Acknowledgement of an acceptable Plan will not guarantee favorable ratemaking treatment of future resource acquisitions.**

*UAE Comments:* While UAE supports acknowledgment, it continues to have a number of serious concerns about past planning decisions and delays that will likely result in increased costs to ratepayers. Such concerns are properly addressed in other dockets.

**8. The Integrated Resource Plan will be used in rate cases to evaluate the performance of the utility and to review avoided cost calculations.**

*UAE Comments:* UAE agrees that this IRP, as well as past IRPs, should properly be considered in rate cases.

**Conclusion**

UAE has concluded that, notwithstanding its concerns, the IRP is generally responsive to the requirements of the Commission's Standards and Guidelines and can properly be acknowledged by the Commission. UAE recommends that the Commission provide guidance and input to the utility consistent with its comments herein. UAE appreciates the opportunity to participate in the IRP process and looks forward to continued involvement.

Dated this 31<sup>st</sup> day of August, 2007.

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## CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was sent by email this 31<sup>st</sup> day of

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