BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Acknowledgment of PACIFICORP Integrated Resource Plan 2007	)))	Docket No. 07-2035-01

WESTERN RESOURCE ADVOCATES' REPLY TO PACIFICORP'S RESPONSE TO UTAH PARTY COMMENTS ON PACIFICORP'S 2007 INTEGRATED RESOURCE PLAN

On October 17, 2007, PacifiCorp (or the Company) filed a response to various parties' comments regarding their 2007 Integrated Resource Plan. Western Resource Advocates (WRA) replies to that Response as follows:

1. On page 3 of the PacifiCorp Response, PacifiCorp claims that WRA, among others, has such high IRP research expectations that, if required, the Company "could never obtain an acknowledged IRP in Utah." We agree that the Company has made numerous improvements in their IRP sophistication and capability since the 2004 IRP process. Improvements should be expected. Nonetheless, we believe that the Company's 2007 IRP falls short of the regulatory requirements and should not be acknowledged at this time. While the Utah PSC may have approved a less-sophisticated analysis as part of the 2004 IRP process, that earlier approval does not lower the regulatory requirements or establish precedent that non-compliance with the IRP regulations will be continually approved.

2. On page 4 of the PacifiCorp Response, PacifiCorp claims that it complied with Procedural Issue 5 (consideration of environmental externalities and attendant costs must be included in the integrated resource planning analysis) by the fact that it commissioned an externality study – conducted by Quantec, LLC – to assess, among other things, water use and water quality, impacts on land use, environmental effects of wind generators, effects of global climate change on the hydroelectric system, and carbon sequestration. However, as we understand the IRP analysis, none of the rival portfolios were weighted in any way based on the impacts calculated by the Quantec study. Accordingly, the study had no bearing on the selection of the optimal portfolio. The IRP regulations clearly require consideration of the "attendant costs" in the resource selection process.

3. On page 5 of the PacifiCorp Response, the Company argues that the 2007 IRP filing complied with Procedural Issue 6 (the integrated resource plan must evaluate supply-side and demand-side resources on a comparable basis) because, in part, the issue of proxy supply curves for Class 1 and Class 3 DSM investments was addressed at a technical workshop where the Company sought guidance from workshop participants. In fact, PacifiCorp uses this rationale to discount many of the arguments made by WRA and

other parties to the IRP process. PacifiCorp's suggestion – that because parties were offered an opportunity to participate in a non-binding process which guided the IRP filing, they no longer have the right to critique the critical inputs and assumptions ultimately utilized in the IRP filing – is simply without merit for a wide array of reasons. First, participation in workshops and other pre-filing processes did not bind PacifiCorp to utilize suggestions offered. Second, parties participating in the pre-filing processes never agreed nor committed to adopt without critique the IRP filing once finalized. Third, and most importantly, the IRP filing is that of PacifiCorp's alone. While pre-filing workshops and other efforts to consider the views of other parties is a meritorious and important, the ultimate responsibility and control of the IRP and its details is borne by PacifiCorp. No other party was invited or entitled to develop the actual IRP filing. That PacifiCorp sought pre-filing guidance on its IRP filing should not negate the public critique process of the formal IRP document.

4. On page 10 of the PacifiCorp Response, the Company argued that the CO2 adders utilized in the 2007 IRP were reasonable, in contrast to WRA's claims, because the Company "relied heavily on feedback from IRP meeting participants." As discussed above, WRA strongly believes that participation in a pre-filing process must not negate the rights of parties to reasonably critique the IRP filing nor PacifiCorp's responsibility to comply with the letter and intent of the regulations. However, in contrast to PacifiCorp's assertion, WRA did raise a number of concerns regarding the CO2 adder values in our comments to the draft filing. Specifically, we stated:

> *While WRA does not take issue with a range of CO2 adders capped at $61/ton, as PacifiCorp has used, WRA questions the value of modeling a $0/ton adder (p.113). There seems to be very little possibility of no carbon regulation, and an $8 per ton scenario also seems remote over the long term. Most scientists recognize that CO2 concentrations of 450-500 ppm by 2050 is a reasonable goal that could impact the long-term effects of climate change. To achieve that, emission levels must be reduced approximately 80% below 2000 levels by 2050. Studying carbon costs in the range of plus or minus $30/ton, which seem most likely given today's technologies and costs for reducing CO2, WRA thinks, would be most worthwhile. PacifiCorp's assumption that a cap & trade mechanism would permanently cap carbon at year 2000 levels is particularly unrealistic (p.129).*

Importantly, as noted by WRA in our filed comments, PacifiCorp utilized an averaging technique to assess the impact of the CO2 adders across portfolios. Due to the inclusion of unrealistically low CO2 adder scenarios (i.e., $0/MWh), we believe that the method was flawed and skewed toward high CO2 portfolios.

5. On page 11 of the PacifiCorp Response, the Company defended its application of its weighted average cost of capital (WACC) as its discount rate for all cost streams, arguing that (1) use of the WACC is mandated by the Public Utility Commission of Oregon, (2) no other party raised the concerns of WRA on this subject, (3) it raises "consistency issues with respect to the reporting of costs for business planning,

accounting, and regulatory purposes." We believe the Company's arguments are without merit, the first two for obvious reasons (this filing was made in Utah, not Oregon; and the number of parties raising an argument has no bearing on the merit of that argument).

On the third issue raised by the Company – consistency – we believe that the Company's argument is also without merit. With respect to the reporting of costs for accounting purposes, we note that the recovery of emission allowance costs – and in fact, all operating costs – are done on an expense basis. These costs are not financed nor depreciated in any manner but generally paid for, and recovered through rates, on a continual basis. Therefore, there is minimal, if any, accounting complication to be reconciled. With respect to business planning and regulatory purposes – which are actually one and the same as PacifiCorp is a regulated entity – we note that consideration of the appropriate discount rate falls clearly within the Public Service Commission's authority. As the operating costs and emission allowances associated with rival portfolio options are likely to be paid for over the next 25 to 75 years (the expected life of a new plant), we believe that application of the Company's WACC to discount all cost streams, whether financed or expensed, is an inappropriate measure of future cost obligations.

6. On page 11 of the PacifiCorp Response, the Company argues that WRA's comments regarding important new policy developments demonstrate "a lack of understanding that the IRP represents a snapshot view of the planning environment at the time the IRP is being prepared…" WRA recognizes that the IRP filing represents a snapshot and must reasonably cut off policy inputs in order to finalize the resource plan. Unfortunately, the enormity of climate change and the extraordinary evolution of public perception and scientific understanding regarding this phenomenon in the recent past calls for a re-assessment of the associated costs and risks. The regulation of carbon dioxide emissions has the potential to have extraordinary impacts on the cost of electricity production from traditional fossil fuel-based resources. The development of long-lived resources such as a pulverized coal unit may cause ratepayers to incur billions of dollars in emission allowances, possibly unnecessarily. We do not discount the Company's statement that the IRP process "has become increasingly complex and less straightforward given the uncertain and rapidly changing planning environment…"[1] However, The burden of direct (*i.e.*, monetary) and indirect (*i.e.*, health and environmental) impacts associated with CO2 emissions should be far more carefully weighed than the Company has done prior to IRP acknowledgement, and particularly, prior to development authorization for any proposed coal facility.

7. On page 17 of the PacifiCorp Response, the Company claims that its use of wind as a proxy for all renewable resources was reasonable because (1) wind is widely available and expected to represent the majority of renewable resources anticipated to be added to the Company's portfolio, (2) this method is consistent with the approach taken in the 2004 IRP which was previously acknowledged and was discussed at a technical workshop in which no opposition was raised, and (3) the model PacifiCorp employed may not have been capable of separately assessing the individual renewable resources.

[1] See PacifiCorp's Reply Comments, at 3.

With respect to the lack of opposition to treating wind as a proxy, PacifiCorp decided to limit the opportunity for concern to the technical workshop alone. Nevertheless, in WRA's comments to the Draft IRP, we raised this exact concern. Moreover, we note that PacifiCorp made no effort to individually model renewable resources. Importantly, wind resources have very different capabilities and characteristics than other renewable energy facilities. Due to the intermittency of the wind, wind resources can have relatively low capacity credits. Solar and geothermal facilities have completely different operating, and thus, capacity characteristics and are abundant in Utah. These resources should be considered based on their own characteristics and merits – as scalable resources capable of meeting future load obligations. PacifiCorp's aggregation of all renewable resources, based on the characteristics of wind facilities, simply does not meet the letter or intent of the IRP regulations.

8. On page 19 of the PacifiCorp Response, the Company claims that, because a planned multi-state DSM potential study was not yet available, the "interim evaluation strategy was necessary because of the lack of adequate Class 2 DSM cost/supply data for modeling purposes." Class 2 DSM includes energy efficiency programs, arguably the most important aspect of DSM planning. While we appreciate PacifiCorp's need for reliable and accurate data by which to plan Class 2 DSM, we note that without inclusion of Class 2 DSM – as a flexible, scalable resource, directly comparable to traditional and renewable supply-side options, as part of the IRP process – the IRP analysis is simply flawed. We recommend that, as a condition to acknowledgement of the IRP, the Utah PSC require PacifiCorp to model Class 2 DSM as a scalable resource on a consistent and comparable basis with the array of supply-side options available, as the regulations require, once the multi-state DSM potentials study is published and available as an input to the IRP process.

Respectfully submitted,

WESTERN RESOURCE ADVOCATES

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