State of Utah
DEPARTMENT OF COMMERCE
Committee of Consumer Services

MEMORANDUM

To: The Public Service Commission of Utah

From: The Committee of Consumer Services

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Date: September 10, 2008

Subject: Comments Re: PacifiCorp's 2007 IRP Update

INTRODUCTION

On June 1, 2008, PacifiCorp (the Company) filed its 2007 Integrated Resource Plan (IRP) Update. The 2007 IRP Update ("IRP Update") relates to PacifiCorp's 2007 IRP, which was not acknowledged by the Public Service Commission of Utah (Commission) for reasons set forth in its February 6, 2008 Order. According to the Company, the IRP Update also informed the development of PacifiCorp's "2008 business plan." The Commission requested comments on the IRP Update be filed by September 10, 2008, with reply comments due October 9, 2008.

The Committee of Consumer Services (Committee) filed extensive comments on the Company's 2007 IRP, most of which were discussed at length in the aforementioned Commission order. Our comments on the IRP Update focus on the following areas: load forecasting; planning reserve margin; capacity position; front office transactions; business plan portfolio and action plan.

COMMENTS

1. <u>Load Forecasting</u>

   On page 5 of the IRP Update, the Company indicated that in October 2007 it revised the March 2007 load forecast used for the 2007 IRP. The system energy and peak demand forecasts for the 2008-2017 period have been adjusted downward by (0.6%) and (0.7%), respectively. The Utah-specific energy and peak demand forecasts for the same period have similarly been adjusted downward by (0.5%) and (0.6%). At the top of page 7 a brief description of the primary drivers underlying the changes in the load forecast is provided. The revised forecast was based on the existing load forecasting methods.

   In the current 2008-9 IRP cycle, the Company retained a consultant, Itron, Inc. to assist the Company in developing new methods to forecast energy sales and peak demand. At the June 26, 2008 IRP stakeholder meeting, Itron presented an initial overview of the energy sales and peak demand models. At the meeting, the Company stated that new sales and peak demand forecasts would be available for review by late summer 2008.

   CCS Response

   The lower energy and peak demand forecasts contained in PacifiCorp's IRP Update lack detailed support and may not accurately reflect system resource needs over the 2008-2017 period. Additionally, these forecasts were based on modeling approaches the Commission, in its recent IRP Order, found to be suspect (especially the approach for forecasting peak demand). Consequently, the Committee has little confidence in the accuracy of these revised forecasts for IRP and business planning purposes.

   On a positive note, PacifiCorp has retained Itron to revamp its load forecasting concepts and methods. The Committee commends the Company for taking steps to improve its load forecasting tools, and modeling assumptions and data. We look forward to reviewing the new 2008 energy and peak demand forecasts.

2. <u>Planning Reserve Margin (PRM)</u>

   The load and resource capacity balances shown on Table 9 (page 15) of the IRP Update are based on a PRM target of 12 percent. On pages 16-17 of its recent IRP Order, the Commission concluded:

   > "Based on the Division's and Committee's analysis, a 15 percent planning reserve margin appears to be reasonable at this time. This is an issue that lends itself well to analysis and we direct the Company to continue to

study the tradeoffs in planning to different planning reserve targets in future IRPs."

CCS Response

The IRP Update departs from the Commission's order in two important ways: (1) annual capacity positions are based on a PRM of 12 percent rather than 15 percent; (2) there is no analysis of cost-risk tradeoffs that occur under alternative PRM scenarios.[1] Thus, the IRP Update does not conform to the Commission's IRP Order on the appropriate baseline PRM for resource planning purposes.

3. Capacity Position

On page 12 of the IRP Update, the Company indicates the system capacity position is deficit two years earlier than reported in the 2007 IRP because of higher loads expected in the western control area. Over the 2010-2016 period, the Interim Update capacity position closely matches the 2007 IRP capacity position.

CCS Response

The use of a 12% PRM overstates the capacity positions (system, east, and west) set forth by the Company. In our comments on the 2007 IRP, the Committee estimated the difference between a 12 percent and 15 percent PRM to be approximately 300 MW (system) in the 2012-2016 period. In addition, the Company relies on a lower peak demand forecast over the ten-year planning horizon, which may further contribute to an overstated capacity position.

The Committee also notes (1) the acquisition of the Chehalis resource (capacity = approx. 500 MW) both improves the short-term "west" capacity position and long-term system position; and (2) the Energy Gateway Transmission Expansion Project (Energy Gateway Project) may have far-reaching impacts beyond access to western market hubs (see front-office transactions discussion below). For example, the Terminal-to-Populus segment allows the Company to move Bridger capacity to Utah as needed and various pieces of the Energy Gateway Project appear to provide better access to regional resources. The Commission should require the Company to provide a more detailed description of the Energy Gateway Project in the 2008-9 IRP process, including an economic assessment of the project compared to alternatives.

[1] As discussed in the Utah Commission's February 6, 2008 Order, the Committee analyzed five cost-risk tradeoff cases in the context of the 2007 IRP. On average, an increase in the PRM reduced expected cost by $60 million and risk by $1.3 billion. [Utah Commission Order in Docket No. 07-2035-01, pg. 15.]

4. <u>Front Office Transactions (FOTs)</u>

The Company has updated its modeling assumptions relating to FOTs based on a more sophisticated assessment of the type and amount of market products at various western hubs.

Committee Response

This appears to be a positive development for purposes of comparing FOTs to other resource options. As discussed below, however, the Committee continues to be very concerned about the Company's heavy reliance on short-term market purchases (FOTs) to meet load growth beginning in the outer years of the business planning horizon.

5. <u>Business Plan Portfolio</u>

Review of the Business Plan Portfolio (Table 12 on page 19 of the IRP Update) indicates a heavy reliance on short-term market purchases in the total resource mix. For example, 736 MW of short-term market purchases are anticipated in 2011, with that figure doubling to 1,472 over the next five years. According to Table 12 the last major resource (an eastside, 1,096 MW, combined-cycle gas plant) is anticipated to be on-line in 2012. Thus, the Company relies almost exclusively on FOTs to meet load requirements over the last five years of the planning horizon.

Committee Response

Table 12 illustrates the substantial market exposure faced by Utah ratepayers if the deficit in the West increases rapidly after 2012 and PacifiCorp is purchasing short-term power on what could be a volatile energy market. The Committee submits this level of exposure is unacceptable for Utah customers and is hopeful that PacifiCorp receives a viable set of economic responses to its 2008 All-Source "Supply-Side" RFP identified in the updated Action Plan (discussed below).

6. <u>Action Plan</u>

In the updated Action Plan, "Supply-Side" Items 7-12, totaling about 2,750 MW, have been collapsed into one item relating to a 2008 All-Source Bid for 2,000 MW. Thus, the resource amount targeted via procurement has been reduced by approximately 25 percent.

Committee Response

The updated Action Plan fails to discuss what combination of factors lead to a 750 MW reduction in capacity sought through a supply-side RMP. Future IRP updates should have a section introducing the various "action item" steps, which describes the key drivers underlying planning changes and the overall (net) impact on the business plan.