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Division of Public Utilities

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Memorandum

TO: Public Service Commission

FROM: Division of Public Utilities
Philip Powlick, Director,
Artie Powell, Energy Manager
Thomas Brill, Technical Consultant
Charles Peterson, Technical Consultant

DATE: September 10, 2008

RE: In the Matter of PacifiCorp 2006 (2007) Integrated Resource Plan, Docket No. 07-2035-01, Integrated Resource Plan Update.

I. BACKGROUND

PacifiCorp (Company) originally filed its 2007[1] Integrated Resource Plan (IRP) on May 30, 2007. Interested parties, including the Division of Public Utilities (Division or DPU) filed comments on the IRP on or about August 31, 2007. The Public Service Commission (PSC) issued its Report and Order (Order) in this matter on February 8, 2008. The PSC Order did not acknowledge the IRP and made a number of suggestions to the Company on improving the IRP going forward.

On June 11, 2008 PacifiCorp filed its Update to the Company's 2007 Integrated Resource Plan (IRP). The 2007 IRP was originally known as the 2006 Integrated Resource Plan. On July 17, 2008 the Utah Public Service Commission (PSC) issued a Scheduling Order requesting that any interested party file its response to PacifiCorp's 2007 IRP Update by September 10, 2008. This

[1] The subject IRP process was originally known as the 2006 Integrated Resource Plan; however, the Company renamed it to "2007" in April 2007 and with its May 30, 2007 filing. Subsequently the Commission and other parties have generally referred to it as the 2007 IRP.

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Memorandum is provided as the response and comments of the Division regarding the Company's 2007 IRP Update.

II. RECOMMENDATION (No Action)

As discussed below, the Division recommends that the Commission take no action with regard to this Update. While the Update has attempted to follow a few of the Commission's recommendations in its Order, many are not dealt with at this time. Further, the Company does not request acknowledgement for this Update. Since the Commission did not acknowledge the original 2007 IRP, there is no basis for acknowledging the Update; consequently the DPU's recommendation is for "no action."

III. DISCUSSION

The Division has organized its comments to briefly discuss several topics in numbered paragraphs. The topics are not necessarily ordered according to importance. The discussion is not intended to include everything that might be said, or to discuss all topics. Much of any detailed discussion is in the Division's comments on the original 2007 IRP filing.

1. Timeliness: As with the original 2007 IRP, the Update was filed late. The basic data are now a year old and likely obsolete. For example, the data for natural gas prices are as of September 2007 (see 2007 Update, page 1), and the Load Forecast is as of October 2007 (2007 Update, page 5). One notes the significant year-over changes between the original 2007 IRP and the 2007 Update as demonstrated on Figures 1, 2, and 3, as well as Tables 2 to 5 (2007 Update, pages 2-6), which are already about a year out of date. It appears to the Division that the Update is now more of historical interest than a useful tool to help judge current or future matters. The Division notes that the Company should be making significant progress with the 2008 IRP, which should be completed in approximately four months. The Division suggests that the Company work to get back on track to timely release IRPs and IRP Updates in order to maintain their relevance and usefulness to the Company, regulators, and other interested parties.

2. Business Plan Link: A concern that the Division and other parties had with the original 2007 IRP was the apparent disconnect between the production of the IRP and the "real" business plan of the Company. It appears that in this Update, the Company has merged the business plan and IRP processes together, so that one reflects the other. The Division appreciates the Company's efforts in this regard and will evaluate the effectiveness of this change as apart of our review of the 2008 IRP.

3. Planning reserve margin: The Company continues to use both a 12 percent and a 15 percent planning reserve margin in its analyses with a focus on the 12 percent margin (see Update, pages 12-16). The 12 percent planning margin was criticized by the Division and some other parties as not adequately supported. The Commission in its Order concluded that "using a 15 percent planning reserve appears to be reasonable at this time" (Order, page 16). The Order appears to implicitly invite the Company to provide analytical support for its use of the 12 percent planning reserve margin. If the Company persists in using a 12 percent margin in the 2008 IRP, such supporting analysis will be critical for a favorable recommendation of the final 2008 IRP.

4. Natural Gas Prices: Natural gas prices were updated based upon September 2007 market forward prices; this compares to the August 2006 forward prices used in the original 2007 IRP. Nevertheless, as mentioned in paragraph 1 above, the data are now a year old. Another problem, similar to concerns the Division had with the 2007 IRP, is that changes in forecasts were inadequately explained. This is the case here in the Update as well. The Company tells us what has changed and by how much, but an explanation of the causation of the change is either inadequate or missing altogether. This lack of explanation requires the Division and other parties to ask follow-up data requests, which hinders and delays understanding of the IRP. An example is highlighted below under "Load Forecasts."

5. Load Forecasts: Load forecasts are as of October 2007, which again are almost a year old. The load forecasts in the 2007 IRP were based upon a March 2007 forecast. Generally load growth and coincident peak growth forecasts are lower in the Update than they were in the 2007 IRP (Update, Tables 4 and 5, page 6). There are only terse explanations on page 7 of the Update of the forecast changes, which in some cases are significant, between March and October 2007. In DPU Data Request 12.11, the Division asked for an explanation for the significant change in the load growth forecast for industrial customers in Wyoming. The Company's complete answer was that "[t]he forecast is driven by customer and perspective (sic) customer load requests. The Company did not perform any studies to reach this conclusion." The Division does not consider this to be a complete explanation of the significant change.

6. Capacity Balance: The 2007 IRP suggested that the Company would have enough of its own or contracted generating capacity to be "long" power until about 2010. The Division and other parties in their comments expressed concern about the Company going "short" by 2010 and the Company's ability to make up for the shortfall by purchasing power at reasonable prices on the open market after that date. The Company is now indicating in its Update that it is already "short" (Update, Figure 4, page 12). This highlights the imperative that the Company acquire additional resources in a timely and efficient manner. A potentially mitigating factor is that PacifiCorp indicated in an answer to a data request that the Chehalis plant is not included in the analysis. Therefore, the Division is uncertain at this time what the effect on the Company's capacity balance would be had Chehalis been fully included in the analysis.

7. Demand Side Management (DSM): The Division has no particular problem with the way the Company used the Quantec DSM Study's "technical potentials" as inputs to its Update. The Division notes that the Quantec Study is still under review in a separate docket, Docket No. 08-035-56. The Division expects that the outcome of that Docket will influence the 2008 IRP.

8. Externalities: In its comments on the 2007 IRP the Division recommended that in future IRPs the Company expand its discussion and, where feasible, its quantitative analysis of external costs and benefits. In its Order, the Commission generally agreed that an expansion of this discussion was needed (Order, page 29). The Update includes no expansion of external or environmental costs over the 2007 IRP. The Division expects that such expanded coverage will be included in the 2008 IRP.

In comments on the 2007 IRP some parties were critical of the Company's estimates of the amounts for a carbon tax or for a carbon dioxide cap and trade allowance, as being too low. In the Update, the Company assumes that beginning in 2012 a CO_2 cap and trade allowance of $8.62 per ton (2008 dollars) would be available. After 2012 the allowance would grow at the Company's forecast inflation rates. The Division estimates that by 2026, the end of the study period, at the Company's forecast inflation rates the allowance would grow to $11.23 per ton. The Division believes this $11.23 per ton figure may be unrealistically low. On page 29 of the Commission's Order, the Commission directed PacifiCorp "to host a public input meeting or technical workgroup to examine the reasonableness of the range of CO_2 adders for evaluating carbon regulation risk and risk mitigating resource strategies." While the Division is aware that CO_2 issues were discussed at a general IRP meeting held on May 23, 2008, it believes that this meeting is insufficient to meet the requirements of the Order. The Division recommends that the Company convene a workgroup in Utah to specifically address this part of the Order. This workgroup should meet as soon as possible so as not to delay the 2008 IRP.

9. Inflation Rates: The Division believes that the inflation rate forecasts used in the Update (see Table 1, page 4) are on the low side at less than 2 percent for the entire study period. As an alternative forecast, Value Line's medium term forecast is 2.2 percent for the Gross Domestic Product Price Deflator, and 2.5 percent for the Consumer Price Index. The inflation terms that the Company uses, e.g. 1.88 percent, 1.96 percent, etc., suggest an implausibly high level of precision in the forecasts.

10. Action Plan and Acquisition Path Analysis: The Commission in its Order did not specifically address the Company's Action Plan. In the Division's comments on the 2007 IRP Action Plan it noted that the Action plan did not follow the guideline to provide detailed explication of the first two years' activities followed by less detail for the next two years (Docket No. 90-2035-01, IRP Standards and Guidelines 4e.). The Company's Action Plans neither in the 2007 IRP nor the Update do this. The Commission's Standards and Guidelines (Docket No. 90-2035-01, IRP Standards and Guidelines 4f.) also require that the Company provide alternative resource acquisition paths and decision mechanisms to deal with changing economic and other real world circumstances. The Commission in its Order stated that “the IRP going forward must fully satisfy this guideline” (Order, page 43). The Company did not provide such an analysis in the 2007 IRP or in this Update. The Division expects the Company to satisfy this guideline in its 2008 IRP.

IV. CONCLUSIONS AND SUGGESTIONS

The Division appreciates the opportunity to comment on the 2007 IRP Update. The Division understands that Company personnel have put much time and effort into its production. The above comments should be considered as observations and suggestions to the Company of the Division’s expectations for the 2008 IRP. The Division believes that the Company should move forward on the 2008 IRP with the goal of a timely filing in January 2008. The Division would agree with the goals of flexibility and continual improvement in the Company’s plans and processes. The Division hopes to work with the Company and other parties so that it can recommend acknowledgement of the 2008 IRP.

cc: Dave Taylor, PacifiCorp
Michele Beck, Committee of Consumer Services
Cheryl Murray, Committee of Consumer Services