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State of Utah
DEPARTMENT OF COMMERCE
Office of Consumer Services

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To: Utah Public Service Commission

From: Office of Consumer Services
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Date: June 18, 2009

Re: In the Matter of the Acknowledgement of PacifiCorp's 2008 Integrated Resource Plan; Docket No. 09-2035-01

Initial Statement

The Office of Consumer Services (Office) submits these comments to the Utah Public Service Commission (Commission) in the matter of the acknowledgement of PacifiCorp's (PacifiCorp or Company) Integrated Resource Plan (IRP).

It is important to remember that the IRP is not merely a theoretical exercise, but that the outcome has significant impact on the electric consumers of the Company. Consumers desire reliable service; they need the power to be there when they "flip the switch" to turn on lighting, cooling, and other equipment used to provide their needs and wants. Because procurement of resources in the electric industry has such a long lead time, long-term planning such as the IRP is the process which ensures the resource adequacy necessary for ongoing reliable service. Consumers also desire least cost service, considering appropriate factors such as risk. Again, the IRP process is designed to evaluate different options for providing service and the relative costs evaluated over the long term, presumably leading to the acquisition of least cost (considering risk) resources.

The Commission has established standards and guidelines by which to determine whether or not to acknowledge the IRP as filed by the Company. However, in order to carry out the public interest of the State of Utah, the Commission should take a broader view in its analysis. In evaluating and adjudicating this case, the Commission must ask two questions:

1. Does the Company have a plan that will ensure resource adequacy over the planning horizon?
2. Does the Company present an optimal plan, or in other words, a plan that at a minimum can reasonably be considered to result in resource acquisitions that are least cost with due consideration to risk and other appropriate factors?

If the answer to either or both of these questions is "no," then the third question must be how to remedy the deficiencies.

The Office will show that neither resource adequacy nor optimality of the preferred portfolio has been demonstrated in this resource plan. We will also show that the deficiencies result in a plan that does not meet the standards and guidelines and therefore recommend that the Commission *not* acknowledge this IRP. Finally, we will make specific recommendations both for this process going forward as well as for specific technical improvements to the IRP itself.

The Office's comments are organized in the following manner: Within this memo, the Office will discuss its primary issues and potential remedies as well as summarize its recommendations. Attachment 1 contains more detailed information on examples where the Company's IRP has not complied with the Commission's Standards and Guidelines and the Commission's order in the Company's 2007 IRP. Attachment 2 provides the Office's critique of specific modeling issues. Attachment 3 is the complete report of GDS Associates, Inc., retained by the Office to review the reasonableness of the various load forecasting models, databases, assumptions and forecasts used by PacifiCorp to establish its annual energy and peak demand needs over the planning horizon.

Discussion of Primary Issues

The Office raises several specific issues in its analysis that calls into question the effectiveness of this IRP in ensuring resource adequacy. Specifically, we show that several of the assumptions and modeling decisions used by the Company are likely to understate the resource needs of the Company in the near term. For example, the Company's use of a 12% reserve margin and treatment of energy not served does not demonstrate that it is planning to an appropriate resource level. The Company also has a significant reliance on market power without providing adequate evidence that the liquidity of the market is sufficient to guarantee supply. Exacerbating the issue of market reliance is a potential overstatement of the capacity contributions from those transactions. (See Attachment 2 for a more detailed discussion of these issues.)

In addition, the peak forecast itself may not have identified the appropriate level of load for which to plan. The Office raised significant forecasting concerns in its comments on PacifiCorp's last IRP. Perhaps partially in response to those concerns, PacifiCorp undertook a significant overhaul of its modeling processes bringing them in line with industry best practices. However, the Company still failed to consider multiple scenarios for its peak forecast. The peak forecast provided by the Company will, *by definition*, be exceeded one half of the time. Industry standard would be to include scenarios – such as optimistic and pessimistic economic conditions and high and low weather scenarios as suggested by GDS in Attachment 3. An important element of an IRP is an examination of how these load conditions impact the portfolios and provide contingency plans to cover these types of variances. (See Attachment 3 for a more detailed review of the Company's forecast provided by GDS on behalf of the Office.)

The Office also raises specific issues that illustrate why the preferred portfolio presented by the Company cannot be found to be optimal. For example, the artificial limits on certain resources within the model coupled with the hard fixing of other resources within the preferred portfolio undermine the results from the capacity expansion modeling.

In summary, this IRP does not provide an adequate plan necessary for the Company to meet its obligations to consumers. While we frame our concerns in the context of resource adequacy and optimality, these deficiencies are also evidence that the Company did not adhere to the Standards and Guidelines established by the Commission for determining whether to acknowledge the IRP. Because of these significant deficiencies, the Office recommends that the Commission not acknowledge the IRP.

Potential Remedies

The Company's filing does not meet the Standards and Guidelines of the Commission. Neither does the filing provide a plan that can be considered to be optimal or reasonably able to ensure resource adequacy. Thus, the Commission must consider what kind of remedy to pursue. Presumably, this will be the second consecutive IRP not to receive acknowledgement. The Company continues to need resources and continues to pursue additional resources, despite the lack of an acknowledged IRP. Actual resource acquisition is evaluated through other processes such as the energy procurement act and prudence review in future rate cases and major plant addition cases. The Office also notes that the Company has incorporated numerous modeling upgrades as well as other changes in response to stakeholder comments; yet, an IRP that cannot receive acknowledgement is still the product of those efforts.

Ultimately, the Commission must consider what should be the role of the IRP. If the Commission finds that the value of the IRP is in the interaction between the Company and other parties and the opportunity for guidance from the Commission, then perhaps the IRP's role is being fulfilled. However, the Office is concerned about the level of time and other resources being spent by the regulatory agencies and other intervenors without resulting in a useful plan or any consequences to the Company. At a minimum, the Office believes that the Commission should continue to provide guidance to the Company that operating without an acknowledged IRP puts the Company at risk for recovery of future costs due to risks for which the Company did not adequately plan.

The Commission has also asked for feedback on the schedule of future IRP filings. The Company suggested filing March 31 of odd-numbered years. In concept, the Office does not oppose the Company's proposal, but believes that the Company must be held to this filing deadline in the future. However, it may be time for the Commission to consider different treatment for IRP filings that do not receive Commission acknowledgement. One option would be to require additional analysis from the Company, accompanied by an additional comment period. Continuing the analysis within this IRP would raise questions about the vintage of data inputs being used, but the Commission could clarify which data sets should be updated. Certainly additional analysis toward the ultimate goal of an acknowledged plan would provide more useful information than going an extended period of time without an acknowledged plan. It could also be in lieu of the IRP update filings, which do not appear to be required by the Commission and are of limited value themselves.

Recommendations

Based on our analysis, the Office recommends the Commission not acknowledge PacifiCorp's 2008 IRP. The IRP (1) fails to comply with certain of the Commission's IRP Standards and Guidelines and (2) includes a preferred portfolio selected by the Company that may not result in a low cost, low risk and reliable set of resources for residential and small business customers in Utah.

In its Attachments, the Office identified many specific improvements that we recommend the Commission Order the Company to include in a subsequent filing, either within this proceeding or in its next IRP filing. Some of these issues may only require an explanation, in which case the Company could include the information in its Reply Comments on July 2. These specific improvements include:

- The Company needs to reconcile the Class 1 DSM results shown in the "Detail Capacity Expansion Results" in Appendix A with the Class 1 DSM results shown in Tables 8.1 and 8.2.

- The Company should address whether the Total Resource Cost (TRC) or Utility Cost (UC) Test should be used to screen DSM options in future IRPs.

- In the future, the Company should be required to take additional steps in aligning the Business Plan with the IRP, rather than the IRP being shaped by the business planning process. In particular, the IRP assumptions used and the fixing of any resources cannot simply be aligned with the business plan, but must be identified, explained and supported with verifiable evidence.

- The Company should document and support any and all restrictions on wind that it uses to constrain the model. To the extent these restrictions are not absolute, the Company should include a sensitivity analysis of the cost and risk implications of incorporating those restrictions into its modeling.

- A commercial feasibility study addressing the near- and long-term geothermal resource potential within or adjacent to PacifiCorp's service territory should be undertaken as soon as possible. The study results should be reported to the Commission as a compliance filing to this case and used by the Company as an input in its 2008 IRP Update.

- PacifiCorp should produce a more robust set of range or scenario forecasts for use in the IRP and other planning and budgetary areas.

- PacifiCorp should prepare and file as part of major proceedings (rate cases, IRPs, etc.) a comprehensive, stand-alone Load Forecast Report. The Load Forecast Report should be fully documented, transparent and current so that the information can be readily used by parties analyzing Company filings.

- PacifiCorp should consider changing the economic driver variable in the commercial and industrial models from number of employees to industrial output as well as several technical points in the area of the hourly forecast methodology raised in Appendix A of the GDS Report (Attachment 3 to this memo).

- The Commission should require PacifiCorp to provide additional sensitivity analysis using a flat energy not served (ENS) cost at different cost levels ($400, $300, etc.) so that it can compare the results of the standard industry approach for valuing ENS with the Company's tiered method for valuing ENS. This sensitivity analysis should be provided as part of PacifiCorp's reply comments in this docket.

- The Commission should again direct the Company to provide analytical support for whatever reserve margin it chooses to incorporate in long-term planning.

- The Commission should again direct the Company to provide a thorough analysis of the impacts associated with moving from a one-hour sustained period to an 18-hour period for determining hydro capacity to meet peak hour requirements. The Office recommends this analysis be provided by the Company in its next IRP cycle.

- The Commission should require the Company to provide evidence that its gross up of front office transactions for reserves is consistent with industry best practices and WECC reserve requirements.

- The Commission should require the Company to (1) clarify whether the 201 MW PPA was made available as a potential resource in all deterministic cases, or whether System Optimizer was only allowed to select the 201 MW PPA in a limited number of cases; and (2) outline contingency plans and trigger points relating to the 201 MW PPA.

- Given the rapidly increasing size of the resource deficit in the 2011-2012 timeframe, the Commission should require the Company to provide a detailed explanation of the major resource planning and plant dispatch assumptions that result in existing gas plant fleet being operated at relatively low average capacity factors and why these operational parameters still justify hard fixing a natural-gas plant in 2014.

- The Commission should require additional evidence to support the level of front office transactions being proposed, particularly through 2013.

The Office does not feel strongly about the timing of future filings. However, regardless of what timing the Commission chooses to require, the Office requests that the Commission insist on timely adherence to the schedule.

The Commission must decide how to remedy the deficiencies presented in this IRP, whether it be through guidance for the next IRP (potentially coupled with additional warnings about potential future recovery of costs due to risks that were inadequately addressed in planning), a hearing, or additional analysis within the current docket with the ultimate intent of amending this IRP until it becomes acknowledged. The Office believes that there would be value in pursuing a process that is reasonably expected to result in an acknowledged IRP. In any event, the Office requests that the Commission very clearly spell out the timing and requirements for the next steps.