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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of PacifiCorp's 2013 Integrated Resource Plan	Docket No. 13-2035-01 **REPLY COMMENTS OF WESTERN RESOURCE ADVOCATES** October 11, 2013

Western Resource Advocates (WRA) submits these reply comments in accordance with the June 3, 2013 Scheduling Order. Our primary purpose is to respond to the proposed solution of the Division of Public Utilities (Division) to address what they describe as an overly burdensome and essentially meaningless IRP process and product. In the context of addressing this issue, we also briefly respond to statements made by PacifiCorp representatives during the September 23, 2013 Modeling and Process Improvement IRP Workshop. Finally, we offer an alternative to address the problems identified by the Division.

I. SUMMARY AND RECOMMENDATION

WRA agrees with the Division that the IRP has become an expensive regulatory exercise. And we agree that the link between the IRP outcome and PacifiCorp's acquisition decisions is tenuous. But we nevertheless believe that conducting a meaningful IRP is worth the resource investment, and we disagree with the Division's suggestion to replace integrated resource planning with the Company's internal business planning process and to modify the Standards and Guidelines to reflect that fundamental shift.

WRA believes the deficiency of the current acknowledgment process is that it lacks consequences. Acknowledgment means that the Company has adhered to the Standards and Guidelines developed by the Commission and has responded to Commission orders providing guidance for improvements. We believe that if the Standards and Guidelines are adhered to, the result will be a good one for PacifiCorp customers.

WRA would support evaluating whether tools are available to the Commission to incent Company management to both develop the best information it can in the IRP process and to act on that information. Possible mechanisms might include linking EBA sharing bands or Rocky Mountain Power's equity returns to whether the Commission acknowledges the Company's IRP.

II. RESPONSE TO DIVISION OF PUBLIC UTILITIES' SEPTEMBER 9 WRITTEN COMMENTS AND COMMENTS MADE BY PACIFICORP REPRESENTATIVES DURING THE SEPTEMBER 23 MODELING AND PROCESS IMPROVEMENT IRP WORKSHOP

A. Alignment of Strategic Business Planning and Integrated Resource Planning

The Division argues that the IRP process has become overly burdensome, costly, and essentially meaningless. It proposes significantly downsizing the process and modifying the Standards and Guidelines. It also recommends the Commission "revisit the fundamental purpose and use of the IRP,"[1] and it proposes that PacifiCorp meet its IRP obligation through a modified version of its annually produced, highly confidential, 10-Year Business Plan.

[1] Division of Public Utilities, In the Matter of PacifiCorp's 2013 Integrated Resource Plan, Division Comments on PacifiCorp's 2013 IRP, Appendix A, Docket No. 13-2035-01, September 9, 2013, p. 7.

WRA shares the Division's frustration with the IRP. As expressed in past comments, we agree that the "IRP has become an expensive regulatory exercise that is not providing the public benefit intended"[2] by this Commission when it promulgated the IRP Standards and Guidelines through its 1992 Order.[3] However, we believe the Standards and Guidelines are basically sound, and we do not agree with the Division's proposed solution to replace integrated resource planning with the 10-Year Business Plan.

In our view, the fundamental issue driving the increasingly complex and time-consuming process is the inherent conflict between management strategic direction and IRP study results. Across planning cycles, integrated resource planning has routinely demonstrated that the Company's business planning is not the best course of action for customers from a cost/risk perspective. Justifying the business plan and capital expenditure program while seeking IRP acknowledgment is a conundrum that PacifiCorp has failed to resolve, but in attempting to do so, an increasingly obscure and complex IRP process has developed.[4]

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[2] Western Resource Advocates, In the Matter of PacifiCorp's 2011 Integrated Resource Plan, Comments of Western Resource Advocates, Docket No. 11-2035-01, September 7, 2011, p. 22.

[3] Public Service Commission of Utah, In the Matter of Analysis of an Integrated Resource Plan for PacifiCorp, Report and Order on Standards and Guidelines, Docket No. 90-2035-01, June 18, 1992.

[4] Since Utah instituted integrated resource planning in 1992, the Commission has issued orders for ten IRPs. (The Company has submitted a total of 12 IRPs to the Commission; Resource and Market Planning Program (RAMPP)-1 was completed before the Commission became actively involved in IRP; the Commission accepted the filing but did not acknowledge.) Of the ten, the Commission failed to acknowledge four and did not acknowledge the action plans of two others. Only four IRPs have been fully acknowledged.

The influence of the Company's strategic business planning on the IRP outcomes was a key consideration in the Commission withholding acknowledgment of RAMPP-5, RAMPP-6, and IRP 2007. Lack of transparency was a key reason for withholding acknowledgement of IRP 2011. RAMPP-3 and IRP 2004 were acknowledged but their action plans were not because of inconsistencies between the plans and study results. RAMPP-2, RAMPP-4, IRP 2003, and IRP 2008 were acknowledged with guidance for future improvements.

IRP acknowledgement was considered in the following dockets: Docket No. 90-2035-01; Docket No. 90-2035-05; Docket No. 96-2035-01; Docket No. 97-2035-06; Docket No. 98-2035-05; Docket No. 03-2035-01; Docket No. 05-2035-01; Docket No. 07-2035-01; Docket No. 09-2035-01; Docket No. 11-2035-01.

The Division proposes to revamp the IRP process and modify the Standards and Guidelines to resolve the conflict by conforming the IRP to the strategic business planning process. As explained in both the 2008 IRP Update (the 2010 Business Plan), and the 2011 IRP Update (the 2012 Business Plan), the development of a business plan differs fundamentally from an IRP.[5] What is best for shareholders is not necessarily best for customers. Indeed this is an underlying premise for implementing integrated resource planning, and, for this reason, the Standards and Guidelines require the "Company's Strategic Business Plan to be directly related to its Integrated Resource Plan."[6] The Division's proposal aligns the two, but at the expense of the public interest. By conforming the IRP to the Business Plan, the proposal runs counter to the goal of benefiting customers through the selection of resources that best balance cost, risk and uncertainty in the context of the existing system's generation mix and topology. A brief discussion and excerpts from these orders are appended.

B. Response to Specific Issues Raised by the Division in Appendix A

Purpose and Use of IRP

The Division asks that the Commission "revisit the fundamental purpose and use of the IRP," that it develop a "mission statement," for the IRP and then "craft any additional guidelines for IRP around the mission statement."[7]

As discussed above, we believe the Commission's direction regarding the fundamental purpose of IRP is clear, sound, and should not be changed—it is to benefit customers through the

[5] The Company determines its capital expenditure program for significant expenditures based on management's judgment of what is best from a strategic Company view. To create a portfolio for an IRP Update, the Company then uses the capacity expansion model to optimize short-term purchases around the predetermined resources.

[6] Public Service Commission, Guidelines, Docket No. 90-2035-01, p. 17.

[7] Division of Public Utilities, Division Comments on PacifiCorp's 2013 IRP, Appendix A, p. 7.

selection of resources that best balance cost, risk and uncertainty. The Division has not provided any rationale to conclude that this purpose is no longer valid. The Division's main concern appears to be with the intensive resource requirements for an expensive regulatory exercise with little meaning. The Division recommends making it less expensive and less resource intensive by simply appending it to the Company's Business Plan, since that Plan embodies what the Company actually intends to do—"at least at the time it [is] prepared."[8]

WRA disagrees that the solution is to abandon IRP in favor of the Business Plan. The Commission's purpose for requiring IRP is clear, and we believe the need for a well conducted IRP to benefit customers is as essential as it ever was, particularly in light of the implementation of energy balancing accounts across PacifiCorp's jurisdictions, and rapid changes in the industry, ongoing and expected.[9]

However, we agree that IRP has become an expensive regulatory exercise. Therefore, as we discuss further in the last section, we support the Commission examining whether the current acknowledgment process is functioning as anticipated and whether alternative regulatory approaches should be considered to incent PacifiCorp's upper management to prioritize the greater public interest in its resource planning and acquisition.

Purpose of "Scenario" Modeling—Use of the Capacity Expansion Model

The Division has this critique of the current modeling process:

> In order to arrive at its assessment of future conditions along with its preferred portfolio for the IRP, the Company spends a massive amount of time preparing and analyzing dozens of future scenarios **primarily to show "what ifs" to**

[8] Ibid.

[9] The divergence between shareholder and customer interests may be larger than it was in 1992. Due to the implementation of energy balancing accounts that effectively shield shareholders from much of the risk of fuel and market purchases, Company management may be less motivated by studies that demonstrate the hedging benefits of renewable resources, or by analysis that shows the risk from engaging in front office transactions to meet long run load growth, than they would be without energy balancing accounts.

> **various parties**…These scenarios may have some intellectual interest, but have little practical effect on what the Company actually plans to do and only **serve as a general guidance and bases for special interests to criticize the Company** for not choosing a particular set of assumptions or a particular set of resources in its "preferred portfolio." [Emphasis added.]

WRA both agrees and disagrees with the Division's critique. We agree that the portfolio development stage of modeling is not fulfilling its intended purpose, but we do not agree with the Division's characterization regarding (1) the purpose of capacity expansion modeling or (2) the reason an excessive amount of time is being spent by the Company on this stage of analysis.

Prior to the two-stage approach to modeling, PacifiCorp hand-developed alternative resource portfolios to be tested in the evaluation of risk and uncertainty. A recurrent criticism of that approach was the lack of diversity in the hand-built portfolios. An additional concern was that resources with known hedging benefits, albeit higher capital costs, were screened from analysis before their risk mitigating benefits could be evaluated. Use of the capacity expansion model was intended to provide transparency and to assure that portfolios with diverse resources were developed and included in the evaluation of risk and uncertainty. So, the Division's assertion that the purpose of portfolio development is to show "what-ifs" to various parties is not accurate. The intended purpose is to develop diverse portfolios for evaluation in an assessment of risk and uncertainty.

Much of the dissatisfaction that has arisen with the conduct of the current IRP centers on the assumptions used to develop the portfolios, the relative similarity of the portfolios that move from this phase of modeling into an evaluation of risk and uncertainty, and the lack of transparency and opportunity for public input into the evaluation of risk and uncertainty, this most critical phase of an IRP. So, while the process has become much more complex, the underlying deficiencies remain.

WRA also disagrees with the Division's implication that the complexity of the process stems from "special interests." The complexity of the process results from the Company's unwillingness to produce the meaningful assessment of the cost, risk, and uncertainties associated with alternative resource options required by the Standards and Guidelines and past Commission orders.

C. Response to Modeling and Process Improvement IRP Workshop Discussion

Our explanation for the ever increasing complexity of the process and the difficulty the Company has in garnering support for its IRP contrasts sharply from that put forward by the Company during the September 23 IRP Process Improvement Workshop. During that meeting, the Company identified the many diverse stakeholders with differing and conflicting agendas, participants who are not fully engaged, participants who wait to provide feedback until after the IRP is complete and filed,[10] and newcomers to the process as impediments to its being able to achieve acknowledgment across its jurisdictions. The Company therefore suggests a Technical Advisory Committee be formed to provide feedback to the Company and ensure consistent, committed participation. Both implicit and explicit in the discussion that followed is the notion that special interests are to blame for both the complexity of the process and PacifiCorp's difficulty in achieving acknowledgment across its states.

WRA disagrees with this framing of the issue. As previously discussed, it is our view that the fundamental issue driving the increasingly complex process and spurring continued dissatisfaction with the IRP is the inherent conflict between strategic management direction and a serious examination of risk and uncertainty undertaken in the integrated resource planning process and the response of PacifiCorp in attempting to bridge the span between the two.

[10] For the past two cycles the results of the stochastic analysis have not been made available for review by the public until the report was ready to file, leaving no opportunity for meaningful review or feedback.

III. CONCLUSION AND RECOMMENDATION

WRA believes the fundamental deficiency of the current acknowledgment process is that it lacks consequences. Simply put, the Company has insufficient incentive to assure that customers get the benefits of integrated resource planning as anticipated by the Standards and Guidelines. Acknowledgment means that the Company has adhered to the Standards and Guidelines developed by the Commission and has responded to Commission orders providing guidance for improvements. We believe that if the Standards and Guidelines are adhered to, the result will be a good one for PacifiCorp customers.

To address the issues the Division identifies, WRA suggests that rather than simply abandoning IRP in favor of the Business Plan as the Division proposes, a better outcome for customers would be to insert meaningful consequences into the IRP acknowledgment process. This could be done in several ways, with the underlying principle being that an IRP that does not adhere to the Standards and Guidelines creates undue risk for PacifiCorp customers.

One way could be to adjust the Company's return on equity in any rate-case following an IRP by, for example, 50 basis points up or down, depending on whether the IRP is acknowledged or not. Attaching real ROE consequences to how well the Company conducts its IRP could provide a meaningful incentive for the Company to pay close attention to adhering to all of the standards and guidelines. An additional way to compensate for the increased risk to customers associated with a deficient IRP process would be to adjust the Company's Energy Balancing Account sharing bands up or down depending on whether or not the IRP was acknowledged, e.g. up to 35% (not acknowledged) or down to 25% (acknowledged). There are likely other ways to provide meaningful incentives.

If the Commission determines to act on the Division's request for Commission action, WRA recommends the Commission investigate these and other ways to assure the quality of the integrated resource planning process has consequences, both positive and negative, for the Company—depending on how well the process adheres to the Commission's Standards and Guidelines.

Respectfully submitted,

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COMMISSION DIRECTION REGARDING STRATEGIC BUSINESS PLANNING AND INTEGRATED RESOURCE PLANNING

The Commission has addressed the linkage between strategic business planning and integrated resource planning through past orders beginning with the 1992 Report and Order on Standards and Guidelines. Three orders provide specific guidance regarding the linkage between strategic business planning and integrated resource planning—the Report and Order on Standards and Guidelines, the Report and Order on the 2007 Integrated Resource Plan, and the Report and Order on the 2008 Integrated Resource Plan. These orders clarify that the purpose of conducting integrated resource planning is to benefit customers; in order to achieve that purpose, the costs and risks of alternative strategies for meeting customers' needs must be documented.

A. Docket No. 90-2035-01, Report and Order on Standards and Guidelines

Procedural Issue Number Nine of the Report and Order on Standards and Guidelines requires the following: "The Company's Strategic Business Plan must be directly related to its Integrated Resource Plan." In discussing this issue, the Commission found that "consistency between the Company's strategic business plan and its IRP is necessary to ensure that ratepayers receive the benefits from IRP."[11]

B. Docket No. 07-2035-01, Report and Order on 2007 Integrated Resource Plan

The Report and Order on PacifiCorp's 2007 Integrated Resource Plan, issued February 6, 2008 contains an extensive discussion of this issue. The Commissions provides clear guidance

[11]Public Service Commission of Utah, In the Matter of Analysis of an Integrated Resource Plan for PacifiCorp, Report and Order on Standards and Guidelines, Docket No. 90-2035-01, June 18, 1992, p. 17.

regarding its expectation of how the two processes are intended to relate such that "ratepayers receive the benefits from IRP":

> The reason for this guideline is to ensure ratepayers receive the benefits of IRP. To the extent the Company makes business or corporate decisions affecting its view of the optimal resource plan given its expected combination of costs, risk, and uncertainty, it must also provide the necessary analysis in the IRP to enable us to determine its conclusions are consistent with the public interest. This is what it means to link the two processes together.
>
> The IRP must serve as an analytical document of the costs and risks to ratepayers of alternative means of providing for adequate future service. Clearly, many considerations play a part in the Company's decisions. However, our Guidelines require not only an assessment of risks and uncertainties, but also require the Company identify who is expected to bear the cost to mitigate this risk. If the Company believes it faces a financial risk due to an IRP failing to be acknowledged in one jurisdiction or another, it has the obligation in the IRP to identify the potential cost consequences of this event and the cost to ratepayers to mitigate the risk….It is critically important the IRP process produces credible results upon which state commissions can rely prior to the use of constraining assumptions based on asserted corporate financial risks.
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> Therefore, we instruct the Company to ensure the IRP explicitly produces the quantitative analysis necessary for regulators to understand the cost consequences of mitigating any risk or uncertain event including any Company corporate resource planning decisions. The Company bears the risk for any unreasonable costs to ratepayers associated with its decisions to change the quantity and type of resources it procures based on asserted but unexamined risks.[12]

C. Docket No. 09-2035-01, Report and Order on 2008 Integrated Resource Plan

The Commission continues its discussion of the linkage between strategic business planning and integrated resource planning in its April 1, 2010 Order on PacifiCorp's 2008 Integrated Resource Plan.

> The IRP is designed to identify the optimal plan to serve the long-run public interest and invite interaction and information exchange between the Company, regulators, and other interested parties…The business plan is directed by

[12]Public Service Commission of Utah, In the Matter of the PacifiCorp 2006 Integrated Resource Plan, Report and Order, Docket No. 07-2035-01, February 6, 2008, pp. 33-34.

Company management and reflects the Company's financial interests to a greater extent than the IRP.[13]

While we concur with the Company the planning processes should inform each other, we also concur with the Office, the Company must fully support all of the assumptions used in the IRP and demonstrate their appropriateness for serving the public interest, including the use of any business planning assumptions.

The objective of the guidelines addressing the link between the Company's strategic business plan and the IRP is to ensure transparency between the two plans such that any differences are easily understood and the benefits of IRP are brought to customers…

…While we conclude the information flow between the two processes should be bidirectional, the attempt at alignment must not compromise the IRP process. For example, initial cases or optimized portfolios should not be dropped from the evaluation process solely on the basis of business plan considerations. We support the approach used by the Company in IRP 2008 wherein the Company included business plan reference cases and evaluated these cases in comparison to the other broadly defined cases. This approach provides transparency between the two planning processes and allows cost-risk tradeoff analysis of the business plan and other alternative portfolios…[14]

…the Company must fully support all of the assumptions used in the IRP and demonstrate their appropriateness for serving the public interest, including the use of any business planning assumptions. Further, the alignment process must not compromise the IRP process.[15]

[13]Public Service Commission of Utah, In the Matter of the Acknowledgment of PacifiCorp's Integrated Resource Plan, Report and Order, Docket No. 09-2035-01, April 1, 2010, p. 47.
[14] Ibid., pp. 48-49.
[15] Ibid., pp. 57-58.