- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Acknowledgment of) PACIFICORP Integrated Resource Plan) (RAMPP 6))	DOCKET NO. 98-2035-05 REPORT AND ORDER

ISSUED: February 28, 2002

SYNOPSIS

The RAMPP 6 Report and Action Plan do not conform to applicable Standards and Guidelines and therefore are not acknowledged. A new docket, based on the comments and recommendations received from parties in the present Docket, is established for the purpose of comprehensive reexamination of integrated resource planning.

By The Commission:

INTRODUCTION

On July 11, 2001, PacifiCorp, doing business in Utah as Utah Power & Light Company ("Company"), filed its sixth Integrated Resource Plan (IRP) as required by IRP Standards and Guidelines ("Guidelines") adopted in Docket No. 90-2035-01, *In the Matter of Analysis of an Integrated Resource Plan for PacifiCorp*, Report and Order issued June 18, 1992. Entitled PacifiCorp Resource and Market Planning Program (RAMPP 6), the Report and modeling appendix document PacifiCorp's analysis of future load growth, how existing power plants meet customers' electric energy needs, and its new resource requirements (power plants, power purchases, and customer efficiency programs). The Report reviews significant events, discusses assumptions and model inputs, and details modeling results. Based on these results, an Action Plan is formulated.

Under the Guidelines, we consider whether to "acknowledge" RAMPP 6. Acknowledgment means RAMPP 6 complies with regulatory requirements but conveys no sense of regulatory involvement in or approval of Company resource acquisition decisions. Instead, integrated resource planning is an open, public process through which all relevant supply-side and demand-side resources, and the factors influencing choice among them, are investigated in the search for the lowest-reasonable-cost, long-run, means of supplying electricity to customers. Clearly, management retains responsibility for its decisions. When we do not acknowledge an IRP, the meaning, as stated by the Commission in Docket No. 90-2035-01, is that the Plan cannot be said to reveal the reasonable way to acquire resources to meet expected load. (See Report and Order issued June 1, 1993.) It is not to say the planning process has no value apart from its written reports. Indeed, as was a recognized purpose when integrated resource planning began, much is gained from open, public discussion of factors of public importance affecting both load and selection of the best way to serve it.

COMMENTS AND RECOMMENDATIONS OF THE PARTIES

On November 8, 2001, the Commission asked interested parties to submit written comments and recommendations on RAMPP 6 and the adequacy of current Guidelines. The Division of Public Utilities ("Division"), the Committee of Consumer Services ("Committee"), the Utah Energy Office ("UEO"), the Land and Water Fund of the Rockies and The Utahns for an Energy-Efficient Economy ("LAW Fund/UE3"), the Tooele County Board of County Commissioners ("Tooele"), the Utah Clean Energy Coalition ("Coalition"), and the Salt Lake Community Action Program, Crossroads Urban Center, and Utah Legislative Watch ("Utah Ratepayer Alliance"), responded.

The Division commends the Company for producing a report that analyzes resource requirements under a variety of load and resource assumptions but expresses disappointment that the Report does not identify the least-cost means of providing electric utility service to customers. The Action Plan, states the Division, is both vague and unrelated to the results of the analysis, and the Report itself fails to comply with Guidelines and Commission orders. The Division believes the Action Plan does not comply with the requirement to pursue the "least cost alternative for provision of energy services to [the Company's] present and future ratepayers that is consistent with safe and reliable service, the fiscal requirements of a financially healthy utility, and the long-run public interest." (Docket No. 90-2035-01, Report and Order issued June 18, 1992.) Other failings of the Report the Division identifies include lack of a direct link between the Action Plan and the Company's strategic business plan, lack of a comprehensive risk analysis, failure to evaluate the financial, competitive, reliability and operational risks associated with resource options, lack of a decision mechanism to select the appropriate resource path, inadequate load forecast, inadequate discussion of rate design and competitive bidding as tools to accomplish least-cost resource acquisition goals, and inadequate discussion of the regulatory treatment of wholesale market operations.

The Division believes these inadequacies place the Company at unusual risk in future rate proceedings. Since Company planning assumptions appear to place less importance on reliability, the risks of such a strategy, the Division states, should fall on shareholders.

Existing Guidelines are flexible and comprehensive, the Division states, but three improvements should be considered. First, to avoid a confidentiality problem, the Company could submit a confidential version of the detailed Action Plan for regulators only. Second, whereas in the past the IRP has served an informational purpose, the Commission should consider revisions to clarify potential regulatory treatment of resource additions. Third, the tie between the business plan and the IRP could be defined more clearly.

In spite of the Report's failings, the Division recommends acknowledgment of the RAMPP 6 study and Action Plan, subject to conditions: a statement indicating how the plan fails to meet Guidelines; notice to the Company that cost recovery of any resources acquired pursuant to RAMPP 6 is at added risk because of its failings; an order requiring the Company to address the inadequacies of the Action Plan and to resubmit a corrected version within 30 days of the issuance of this order; and an order requiring the Company to follow the Guidelines unless and until they are formally revised. With these conditions, the Division believes an acknowledged Report may be useful in future rate proceedings, a potentially important point in its view given that no Company IRP has been formally acknowledged for the past five years.

The Division expresses an interest in examining, with the Company and other interested parties, how to make integrated resource planning responsive to the changes in the industry. The issue could be addressed, the Division states, in Docket No. 01-035-35, *In the Matter of the Application of PacifiCorp for the Determination of Guidelines for Integrated resource Planning, Power Cost Risk Management and Wholesale transactions and for Approval of a Power Cost Adjustment Mechanism*.

The Committee urges us not to acknowledge RAMPP 6 because Guideline requirements have not been met. The Committee also notes that the Report does not comply with conditions imposed by the Commission in both the RAMPP 6 Interim Order (issued February 11, 1999 in Docket No. 98-2035-05) and the Report and Order on Acknowledgment of RAMPP 5 (issued April 21, 1999 in Docket No. 97-2035-06). The Committee points to repeated instances of IRP failure to comply with Commission orders: inconsistency between the Action Plan and the Company's strategic business plan, inadequate consideration of wholesale sales, inadequate consideration of risk, and poor load forecasting. Five elements of a successful IRP according to the Committee are "validity and range of inputs, thoroughness of sensitivity and scenario evaluation, rigor and appropriateness of risk analysis, determination of the optimal resource set, and inclusion of path analysis." While "RAMPP modeling, sensitivity runs, special case considerations, and IRP process are basically sound," the Committee believes "the results are flawed, the risk analysis absent, the path analysis missing, and the action plan nonexistent."

The Committee attributes PacifiCorp's current resource inadequacy to a Company deregulation strategy rather than to a merely inadequate integrated resource plan. Had the Company followed Guidelines and Commission orders, the Committee believes both customers and the Company would have faced less risk. Guidelines therefore should be changed as may be necessary to insure the Commission can enforce its IRP authority and so that PacifiCorp, rather than its customers, bears the consequences of flawed management strategy and decisions. Desirable aspects, such as planning for an integrated, single-system operation, however, should be retained.

The Utah Energy Office (UEO) calls the RAMPP 6 Report and Action Plan inadequate and recommends against acknowledgment for reasons which include the high-level, broad-brush nature of the RAMPP 6 analysis of scenarios rather than planning for a specific future, and an Action Plan that does not identify, contrary to current Guidelines, an optimal set of resources. The UEO believes the Report's analytical assumptions are out of date and that the Report is inadequately tied to the utility's business plan. In its opinion, far more cost-effective demand-side resources may be available than the Report identifies, a result the UEO attributes to weaknesses in IRP analysis. For example, even though load management and other demand-side resources were found to be cost effective in a comprehensive analysis entitled *An Economic Analysis of Achievable New Demand-Side Management Opportunities in Utah*, prepared by the Tellus Institute for the Utah Energy Efficiency Task Force (on file in Docket No. 01-035-01), the IRP did not analyze them, a serious failure given the system's summer peak load problems. Moreover, the substitution of demand-side resources for existing resources was not considered in the Company's analysis. These resources, states UEO, were further undervalued by not including the gain that might be realized if their presence in the resource portfolio were to free the output of traditional generation facilities for sale on the wholesale market. In sum, RAMPP 6 fails in its responsibility to identify a reliable supply at lowest reasonable cost.

The UEO recommends revisions to the IRP process to require a regionally coordinated IRP plus one specifically for the Utah service territory; a change in the Guidelines to move from the current acknowledgment requirement to formal approval so the Commission could enforce Plan implementation; and adoption of a continuous, rather than a biennial, planning process in order to better capture the dynamic changes the Company and the industry face. While it supports reexamination of the Guidelines, the UEO does not believe this should be done in Docket No. 01-035-35 because of that Docket's focus on a proposed power cost adjustment mechanism. Finally, the UEO asks the Commission to direct the Company to draft a new IRP for Utah by June 1, 2002, to be considered concurrently with new Guidelines.

The LAW Fund/UE3 commends the Company for a detailed, comprehensive analysis of scenarios, but believes the Report fails to meet Guideline requirements because it does not directly link resource analysis to the Action Plan, is not tied to the strategic business plan, and fails to adequately consider either demand-side resources or risk. The Company constructs weighted averages of the expected values of alternative scenarios, improperly burying in averages, states the LAW Fund/UE3, the risks of specific events such as future environmental regulations or gas price volatility. A further consequence of this approach is an undervaluation of renewable resources. The LAW Fund/UE3 believes the Report and the Action Plan are not an adequate basis to evaluate future resource acquisitions and recommends against acknowledging RAMPP 6. Instead, the Commission should order the Company to analyze the risk-mitigation benefits of investments in renewable and demand-side resources, other risk management strategies such as hedging price volatility, and cost-effective load management. Load management should be explored in the RAMPP process, the LAW Fund/UE3 recommends, before the Company constructs peaking generation facilities. The LAW Fund/UE3 believes an adequate IRP could help assure recovery of resource investments.

The Coalition seeks an integrated resource plan which, unlike RAMPP 6, captures the current state of the industry by properly valuing the alternative resources which could both diversify the resource portfolio and reduce the risks of volatile fuel prices and future environmental regulations. Shortfalls of RAMPP 6 the Coalition identifies include undervalued renewable resources, inadequate risk analysis of fossil fuel volatility, and inadequate assessment of the environmental costs of fossil fuels. In its view, these aspects of the planning process should be addressed, and the Company should be directed to analyze the risk mitigation benefits of renewable resources. PacifiCorp should commit, states the Coalition, to a significant addition of renewable resources, especially wind and solar, to its resource portfolio.

Tooele supports the positions of the Coalition and the LAW Fund/UE3, and agrees with a PacifiCorp admission that RAMPP 6 scenarios do not capture the current state of the industry. Like the Coalition, Tooele advocates a new commitment to renewable resources by the Company, with similar emphasis on wind and solar generation.

The Utah Ratepayer Alliance urges the Commission not to acknowledge RAMPP 6 because it is outdated, inadequate and inflexible, shortchanges demand-side and renewable resources, is not on the path to truly integrated resource planning, and does not comply with long-standing Commission orders. In such failures as lack of connection between the Action Plan and the Strategic Business Plan, the Utah Ratepayer Alliance notes that things have deteriorated as the Company seeks to restructure and ponders whether to meet new load with regulated or unregulated resources. The serious conflict, in the Alliance's opinion, is that between resource planning and strategic business planning; the serious failings include superficial treatment of demand-side management (especially load management) and renewable resources, inadequate consideration of resources required to serve retail as distinct from long-term wholesale sales loads, improper assumptions about Utah load growth, and inadequate discussion of whether risks should be borne by ratepayers or shareholders. These, states the Alliance, are points that must be corrected.

DISCUSSION, FINDINGS, AND CONCLUSIONS

Comments and recommendations received in response to our request are unusually detailed and extensive. Those of the Division and the Committee recount the ten-year history of the integrated resource planning process in this jurisdiction, revealing instances of Company failure to comply with Guidelines and Commission orders. Party comments state at length what must be done to make integrated resource planning the public policy vehicle it is intended to be. Parties buttress critical comments with citations to orders this Commission has issued on the subject since first adopting standards and guidelines in Docket No. 90-2035-01. It is apparent that in some instances the Company has either ignored or downplayed requests of the parties and the Commission for adequate analyses of scenarios, risk, and demand-side management opportunities. This cannot continue.

For the second consecutive time RAMPP has failed to meet Guidelines and will not be acknowledged. The Company itself argues RAMPP 6, a much delayed Report, is out of date and does not guide its resource portfolio decisions. For example, though filed in July 2001, the effects on resource planning and acquisition of the explosive runup in wholesale market prices that began in May 2000 are not considered. The Action Plan as filed serves no practical purpose. Some parties believe risk analysis has improved; others fault it vigorously for reasons which include blurring the distinction between risk and uncertainty, and lack of attention to the risk mitigation role of demand-side and renewable resources. From a litany of problems parties have identified, we see that most cite a continuing failure to link integrated resource planning with strategic business planning. A Guideline adopted in Docket No. 90-2035-01 that remains in effect requires both compatibility of the IRP and the strategic business plan and IRP guidance of the strategic business plan, rather than the reverse. The Division and the Committee, we note, identify a surface consistency between the IRP and the business plan, as the Company relies to a greater extent on wholesale market and unregulated operations to serve load, though the strategic business plan appears to drive the IRP.

We find and conclude that RAMPP 6 fails to meet current Guidelines, exhibits the result of a Company refusal to properly address past Commission orders, and does not meet its intended purpose.

When PacifiCorp's RAMPP process began, some saw it as a model for the industry. Its open, public meetings, scenario analysis and action plans, and, with respect to decisionmaking under conditions of uncertainty, its intention to rely on criteria such as flexibility, impressed this Commission that the RAMPP process and integrated resource plans could and should meet Guidelines. Later, the requirement for integrated resource planning was codified in national legislation (the Energy Policy Act of 1992). PacifiCorp's planning effort seemed a good fit. Even so, some noticed an inherent conflict in the 1992 Act between the retail planning requirement and an intended move toward wholesale competition. Perhaps, then, it is not wholly surprising that during the past five years or so, in what is now recognized as the Company's strategic anticipation of the deregulated industry future which it believed would occur, the IRP as an instrument of public policy began to fail, and instances of noncompliance with Commission orders arose.

Though the industry is not what the Company expected, pressures for change do exist. In spite of recent setbacks, the desire to deregulate continues, particularly on the part of large commercial and industrial corporate consumers of electricity. The Federal Energy Regulatory Commission still favors regional transmission organizations en route to a competitive wholesale market. So it is not just the Company's failure to produce an integrated resource plan meeting Utah regulatory requirements that compels reexamination of this regulatory planning process but potential industry change as well. In this context, a fundamental question for integrated resource planning *as a regulatory requirement* is how its purposes can be accomplished in the face of what may yet be a turn away from economic regulation toward the market.

We believe a new docket is required to refashion integrated resource planning and to assess whether it might once again be a useful vehicle of public policy. The competent analyses of the parties in the present Docket, the lack of response to Commission orders, and the evident failure of the current IRP bring us to this conclusion. For reasons stated, this is a break with the past when the Commission has simply ordered improvements to integrated resource planning in response to party comments. We take note, as well, of the Company's recent efforts to redesign integrated resource planning as a tool to support Company decisions and to improve prospects for cost recovery. We agree with the UEO that this review should not occur in Docket No. 01-035-35, the Company's application for new guidelines, because of the tie to a power cost adjustment mechanism. We require, however, the implications of a power cost adjustment mechanism for planning, risk, and the parties that bear risk, to be addressed in the planning process.

In the interests of the new examination, we require the Company to provide a written response to each comment and recommendation tendered by the parties in the present Docket. Further, we require the Company to file an updated Action Plan by June 1, 2002, which, at minimum, identifies the effects of updating out-of-date assumptions and inputs on the type, size, and timing of resource additions; identifies the actions the Company will take in the near term to meet load growth over the plan horizon; shows how IRP results have been incorporated in the strategic business plan; and explains how load management, rate design, and competitive bidding will be employed to achieve least-cost supply.

<u>ORDER</u>

NOW, THEREFORE, IT IS HEREBY ORDERED, that

1. The RAMPP-6 Planning Report and Action Plan are not acknowledged.

2. An updated Action Plan, which meets current Guideline requirements, is based on integrated, single-system, least-cost operation, and evaluates demand-side management opportunities equally with supply-side options, will be submitted by June 1, 2002.

3. The Company will comply with the requirements and filing dates set forth in the October 29, 2001 Order on Reconsideration of DSM Issues, Docket No. 01-035-01, calling for better evaluation of demand-side management opportunities. The report is due by April 1, 2002.

4. Upon receipt of the June 1 Action Plan, Docket No. 98-2035-05 is closed.

5. RAMPP 7 will be filed December 2002 as scheduled. It will assume current Guidelines unless otherwise ordered.

6. Docket No. 02-035-03 is established to reexamine integrated resource planning and the guidelines according to which it should occur.

7. To move Docket No. 02-035-03 forward, the Company will file by April 5, 2002, its written response to the comments and recommendations filed by the parties in the present Docket.

8. A copy of the current Standards and Guidelines adopted by the June 18, 1992 Report and Order in Docket No. 90-2035-01 is appended. The Company and parties will take note of the definition of integrated resource planning and the detailed requirements for both process and plan stated therein. PacifiCorp will file in Docket No. 02-035-03 a written evaluation of the continuing relevance of this definition and of each requirement by April 5, 2002.

9. A technical conference in Docket No. 01-035-35, *In the Matter of the Application of PacifiCorp for the Determination of Guidelines for Integrated Resource Planning, Power Cost Risk Management and Wholesale Transactions, and for Approval of a Power Cost Adjustment Mechanism*, has been scheduled for March 29, 2002. We intend to move the search for guidelines from Docket No. 01-035-35 to Docket No. 02-035-03, but will consider any comments PacifiCorp and the parties may offer at or prior to the technical conference before concluding to do so.

10. Pursuant to Utah Code Ann. § 63-46b-13, an aggrieved party may file, within 20 days after the date of this Order, a written request for rehearing or reconsideration by the Commission. Pursuant to Utah Code Ann. § 54-7-15, failure to file such a request precludes judicial review of the Order. If the Commission fails to issue an order within 20 days after the filing of such a request, the request shall be deemed denied. Judicial review of this Order may be sought pursuant to the Utah Administrative Procedures Act (Utah Code Ann. §§ 63-46b-1 *et seq.*)

DATED at Salt Lake City, Utah, this 28th day of February 2002.

/s/ Stephen F. Mecham, Chairman

/s/ Constance B. White, Commissioner

/s/ Richard Campbell, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary

G#28433

Attachment A

Standards and Guidelines for Integrated Resource Planning
for PacifiCorp, Utah Jurisdiction

Procedural Issues:

1. The Commission has the legal authority to promulgate Standards and Guidelines for integrated resource planning.

2. Information Exchange is the most reasonable method for developing and implementing integrated resource planning in Utah.

3. Prudence Reviews of new resource acquisitions will occur during ratemaking proceedings.

4. PacifiCorp's integrated resource planning process will be open to the public at all stages. The Commission, its staff, the Division, the Committee, appropriate Utah state agencies, and other interested parties can participate. The Commission will pursue a more active-directive role if deemed necessary, after formal review of the planning process.

5. Consideration of environmental externalities and attendant costs must be included in the integrated resource planning analysis.

6. The integrated resource plan must evaluate supply-side and demand-side resources on a consistent and comparable basis.

7. Avoided Cost should be determined in a manner consistent with the Company's Integrated Resource Plan.

8. The planning standards and guidelines must meet the needs of the Utah service area, but since coordination with other jurisdictions is important, must not ignore the rules governing the planning process already in place in other jurisdictions.

9. The Company's Strategic Business Plan must be directly related to its Integrated Resource Plan.

Standards and Guideline:

1. Definition:

Integrated resource planning is a utility planning process which evaluates all known resources on a consistent and comparable basis, in order to meet current and future customer electric energy services needs at the lowest total cost to the utility and its customers, and in a manner consistent with the long-run public interest. The process should result in the selection of the optimal set of resources given the expected combination of costs, risk and uncertainty.

2. The Company will submit its Integrated Resource Plan biennially.

3. IRP will be developed in consultation with the Commission, its staff, the Division of Public Utilities, the Committee of Consumer Services, appropriate Utah state agencies and interested parties. PacifiCorp will provide ample opportunity for public input and information exchange during the development of its Plan.

4. PacifiCorp's future integrated resource plans will include:

a. A range of estimates or forecasts of load growth, including both capacity (kW) and energy (kWh) requirements.

i. The forecasts will be made by jurisdiction and by general class and will differentiate energy and capacity requirements. The Company will include in its forecasts all on-system loads and those off-system loads which they have a contractual obligation to fulfill. Non-firm off-system sales are uncertain and should not be explicitly incorporated into the load forecast that the utility then plans to meet. However, the Plan must have some analysis of the off-system sales market to assess the impacts such markets will have on risks associated with different acquisition strategies. ii. Analyses of how various economic and demographic factors, including the prices of electricity and alternative energy sources, will affect the consumption of electric energy services, and how changes in the number, type and efficiency of end-uses will affect future loads.

B. An evaluation of all present and future resources, including future market opportunities (both demand-side and supply-side), on a consistent and comparable basis.

i. An assessment of all technically feasible and cost-effective improvements in the efficient use of electricity, including load management and conservation.

ii. An assessment of all technically feasible generating technologies including: renewable resources, cogeneration, power purchases from other sources, and the construction of thermal resources.

iii. The resource assessments should include: life expectancy of the resources, the recognition of whether the resource is replacing/adding capacity or energy, dispatchability, lead-time requirements, flexibility, efficiency of the resource and opportunities for customer participation.

c. An analysis of the role of competitive bidding for demand-side and supply-side resource acquisitions.

d. A 20-year planning horizon.

e. An action plan outlining the specific resource decisions intended to implement the integrated resource plan in a manner consistent with the Company's strategic business plan. The action plan will span a four-year horizon and will describe specific actions to be taken in the first two years and outline actions anticipated in the last two years. The action plan will include a status report of the specific actions contained in the previous action plan.

f. A plan of different resource acquisition paths for different economic circumstances with a decision mechanism to select among and modify these paths as the future unfolds.

g. An evaluation of the cost-effectiveness of the resource options from the perspectives of the utility and the different classes of ratepayers. In addition, a description of how social concerns might affect cost effectiveness estimates of resource options.

h. An evaluation of the financial, competitive, reliability, and operational risks associated with various resource options and how the action plan addresses these risks in the context of both the Business Plan and the 20-year Integrated Resource Plan. The Company will identify who should bear such risk, the ratepayer or the stockholder.

i. Considerations permitting flexibility in the planning process so that the Company can take advantage of opportunities and can prevent the premature foreclosure of options.

j. An analysis of tradeoffs; for example, between such conditions of service as reliability and dispatchability and the acquisition of lowest cost resources.

k. A range, rather than attempts at precise quantification, of estimated external costs which may be intangible, in order to show how explicit consideration of them might affect selection of resource options. The Company will attempt to quantify the magnitude of the externalities, for example, in terms of the amount of emissions released and dollar estimates of the costs of such externalities.

l. A narrative describing how current rate design is consistent with the Company's integrated resource planning goals and how changes in rate design might facilitate integrated resource planning objectives.

5. PacifiCorp will submit its IRP for public comment, review and acknowledgement.

6. The public, state agencies and other interested parties will have the opportunity to make formal comment to the Commission on the adequacy of the Plan. The Commission will review the Plan for adherence to the principles stated herein, and will judge the merit and applicability of the public comment. If the Plan needs further work the Commission will return it to the Company with comments and suggestions for change. This process should lead more quickly to the Commission's acknowledgement of an acceptable Integrated Resource Plan. The Company will give an oral presentation of its report to the Commission and all interested public parties. Formal hearings on the acknowledgement of the Integrated Resource Plan might be appropriate but are not required.

7. Acknowledgement of an acceptable Plan will not guarantee favorable ratemaking treatment of future resource acquisitions.

8. The Integrated Resource Plan will be used in rate cases to evaluate the performance of the utility and to review avoided cost calculations.