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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Acknowledgment of PACIFICORP'S Integrated Resource Plan 2004

<u>DOCKET NO. 05-2035-01</u>

COMMENTS AND RECOMMENDATIONS OF THE UTAH ASSOCIATION OF ENERGY USERS ON PACIFICORP'S 2004 IRP UPDATE

The Utah Association of Energy Users ("UAE") hereby submits its response to the Public Service Commission's (Commission) Order dated February 22, 2006, requesting comments on PacifiCorp's 2004 Integrated Resource Plan Update ("Update" or "IRP Update").

Executive Summary

UAE appreciates PacifiCorp's willingness to acknowledge a number of the comments and recommendations made by UAE and other IRP participants in response to the 2004 IRP and to make substantial revisions to its proposed action plan. UAE is generally supportive of the revised action plan ("Revised Action Plan"), with certain caveats and modifications discussed in these comments. UAE's comments address the following issues:

- **Commission Guidance.** UAE respectfully requests the Commission to address at least the following points in providing guidance to the Company on the Revised Action Plan as contemplated by Utah Code Ann. § 54-17-301(1):
 - ***Supply-Side Resources.*** Proposed coal resources in the 2012-2014 timeframe or thereafter should be supported. The Company should, however, be directed to build maximum flexibility into the RFP process in an effort to ensure that the Commission will be in a position to timely select from among all potential resource options. UAE has serious concerns, for example, about the ability of the Company to meet a 2012 or 2013 on-line date for a new coal resource. UAE is concerned that the Company has not adequately evaluated potential difficulties and time delays in securing all of the necessary environmental permits and regulatory support from other states. UAE would like to see a meaningful analysis and comparison of cost and risk tradeoffs for alternative coal technologies in the context of the next coal resource. Thus, UAE supports a more flexible RFP approach that targets any and all types and combinations of resources that might satisfy the Company's projected needs in and after 2012, including supercritical coal, IGCC, market resources, bridge resources, transmission, etc.
 - ***Customer-Based Resources.*** The Action Plan's pursuit of renewable, DSM and distributed resources should be supported and the Company should be directed to pursue even more of such resources. Cost-effective DSM and other customer-based resources, as well as cost-effective renewable resources, typically offer the most efficient, sustainable and responsible resource options and should be the

Company's first priority. The Company should be encouraged to identify and pursue additional cost-effective Company-sponsored DSM programs and rate design changes in order to promote conservation, and particularly peak demand conservation. The analysis should include, but not be limited to, the commitments made by PacifiCorp and MidAmerican Energy Holdings Company ("MEHC") in Docket 05-035-54.

- **Transmission.** The proposed Path C upgrade should be supported. In addition, the Company should be strongly encouraged to promptly and fairly evaluate and pursue all other cost-effective transmission projects including, but not limited to, the transmission projects identified in the commitments made by PacifiCorp and MEHC in Docket 05-035-54.
- **Unresolved 2004 IRP Issues.** While UAE is generally supportive of the direction of the Updated Action Plan, several issues and concerns addressed in comments from UAE and others to the 2004 IRP remain unresolved. For example, UAE continues to advocate for the use of an IRP base case that utilizes updated gas and electric market forecasts, a lower planning margin, more aggressive customer-side initiatives, more reasonable assumptions as to the timing of carbon tax risk, non-firm transmission, etc. UAE believes that the magnitude of projected resource needs is still overstated in the IRP Update. UAE also continues to request that the Company be required to make its IRP models and input data available to regulators and other participants, and to evaluate the use of less cumbersome and more transparent and available IRP models.

- **IRP Timing.** Current standards and guidelines require only biennial IRP reports. UAE is concerned that momentous resource decisions may be made without the benefit of a full and current IRP. Rather than doing a full IRP analysis that would consider a wide range of possible resources and portfolios, the IRP Update essentially starts with the 2004 IRP preferred portfolio and then evaluates changes in resource timing and configuration within that portfolio. While that may be the best that can be expected on a timely basis under current requirements, UAE believes that the weighty decisions required of the Commission in the near future would be much better informed with a full and timely IRP. UAE thus recommends that the Company be directed to begin a new IRP promptly following receipt of the Commission's Order on the last IRP if the Company projects a need for significant new supply-side resources within its planning horizon.
- **SB 26.** In exchange for possible pre-approval of resource cost recovery under U.C.A. § 54-17-303, it is contemplated under U.C.A. § 54-17-301 that the Commission will provide "guidance" on a utility's action plan. The Energy Resource Procurement Act, U.C.A. §§ 54-17-101, et seq., shifts significant risks from the utility to its ratepayers and thus requires active and meaningful Commission participation in the resource procurement process to ensure that ratepayer interests will be properly protected. The Commission should assume that the Company will (properly) put significant weight on any guidance offered by the Commission in response to the IRP Update. At the same time, the Company must also deal with feedback from and views of stakeholders and public utility commissions in five other states. Commission guidance should thus not be considered mandatory under all circumstances and it should not constitute pre-approval of

any particular resource, type of resource or procurement path. It should, however, be considered important and substantive Commission guidance on which the Company may properly rely. Moreover, the manner in which the Company responds to and comports with the Commission's guidance should be a strong factor in determining whether a request for pre-approval of cost recovery for any resources should be granted.

Detailed Comments and Recommendations

1. Supply-Side Resources.

UAE has consistently resisted construction of more natural gas fired power plants in this region and has supported the pursuit of other resources, particularly those that utilize western coal resources. UAE commends PacifiCorp for its direction toward coal and its efforts to study and pursue IGCC technology as a potential coal resource on the east side of the system. UAE thus supports the Revised Action Plan's focus on coal plants. UAE is also encouraged by commitments made in the MEHC acquisition process. UAE nevertheless has serious timing concerns. It is not clear that PacifiCorp has adequately addressed potential resistance from PacifiCorp's Northwest states to the supercritical PC resource assumed in the Preferred Portfolio or participation in a conventional coal project such as IPP 3. Nor is it clear that an IGCC plant is economically feasible or that any type of coal unit can be constructed or acquired to meet the projected resource deficits starting in 2012.

It seems questionable whether both the necessary environmental permits and the required multi-state consensus can be achieved in time to facilitate construction of a new supercritical pulverized coal (PC) plant or participation in a conventional PC plant by 2012 or 2013. Indeed, in a recent RFP technical conference, the Company suggested that the lead time for either an

IGCC or a supercritical coal plant might be in the range of 7 years, and even that kind of lead time might be insufficient to ensure multi-state consensus and to accommodate potential environmental litigation. UAE is concerned that the simple passage of time might leave PacifiCorp with no realistic coal options to meet its projected resource needs, potentially causing the utility to fall back on the large natural gas resource that it recently eliminated from its IRP to meet the projected 2012 shortfall of more than 1,000 MW. UAE supports acquisition or construction of coal-based projects and does not wish to see a path pursued that may later prove impracticable, leaving no option down the road but to construct resources with shorter lead times, such as expansions of existing natural gas plants.

UAE is also anxious to see a complete and meaningful analysis of cost and risk tradeoffs of various types of coal resources, such as supercritical versus IGCC. In addition, investment tax credits for IGCC resources should be expressly included in the cost analysis and then aggressively pursued. PacifiCorp committed in the MEHC docket to analyze IGCC, focused principally in the 2014 timeframe. UAE believes that a detailed analysis of all available coal-based options should be done in connection with the very next significant coal resource. Any coal resource process must allow sufficient lead time for likely litigation over environmental permits (particularly for a conventional or supercritical PC plant) and to permit meaningful multi-state dialogue regarding acceptable resource types and risks. UAE doubts that a target date of 2012 or 2013 is sufficient for these purposes.

UAE submits that the Company and the Commission should carefully analyze timing risks and realities for all potential coal resources, including environmental risks and multi-state approval risks. To accommodate such analysis, the RFP process set to launch this year should be

much more flexible than in the past. For example, a “2012 RFP” should not be issued by the Company that requires delivery by 2012; few coal resources could meet such an on-line date. Rather, a flexible RFP should be issued that solicits proposals on any and all resources that might, individually or in combination with other resources, be able to satisfy the Company’s projected needs in and after 2012. Such an RFP would actively solicit bids to “bridge” any projected resource gap, if necessary, so that longer lead-time resources can be fairly and properly evaluated against shorter lead-time projects.

UAE has not prejudged the optimal resource or mix of resources that should be pursued by the Company or approved by the Commission. UAE is anxious, however, to ensure that all reasonable supply-side, demand-side and transmission options are evaluated in a fair, even handed manner, and that all significant risks and tradeoffs of the various resource types are adequately and timely identified, studied and explained. Only then will the Commission be in a reasonable position to make an informed choice among potential resources. Moreover, UAE agrees with comments of the Idaho Commission Staff that the Company should develop a meaningful contingency plan to identify and explain the actions that PacifiCorp will take if planned resources cannot timely be acquired. [Idaho Public Utilities Commission, “Acceptance of Filing,” page 5, Case No. PAC-E-05-2, 8/26/05]

UAE members are extremely concerned about electric service reliability. However, resources acquired over the next several years will likely be serving Utah ratepayers for more than half a century. It is critical to the future economic competitiveness of Utah industry for the utility and the Commission to identify and acquire the optimal set of resources over the long term. All necessary time and resources should be devoted to identifying this optimal resource

mix. Shorter-term reliability concerns can be adequately addressed through available market opportunities and, if necessary, through smaller, flexible gas units with relatively short lead-times located at strategic locations.

2. Customer-Based Alternatives.

All cost-effective alternatives to traditional supply-side resources should be aggressively evaluated and pursued in response to Utah's sustained energy and demand growth. Customer-based alternatives, including DSM, CHP, cogeneration, rate design changes, etc., are often less expensive, more efficient and more environmentally friendly than other resource options, making them a high priority. In response to public comments received on the 2004 IRP from UAE and others, the Company changed its assumption regarding interruptible contracts, extending them through the end of the study period. UAE supports this revised assumption as to interruptible contracts. However, UAE believes that the quantity of interruptible resources identified in the Update may be incorrect. For example, UAE understands that the Nucor contract includes 70 rather than 60 MW of interruptible resources and that the Monsanto interruptible resource is greater than 67 MW. Moreover, UAE suggests that non-firm QF contracts can properly be assigned a capacity value based on historical availability, in a manner somewhat similar to wind resources. While the 2004 IRP and the Revised Action Plan consider a number of customer-based alternatives, and commitments made in the MEHC acquisition process promise additional analysis, UAE submits that even greater effort and more aggressive assumptions should be required in order to identify and pursue all cost-effective customer-based alternatives.

The Company reiterates its intention to pursue DSM programs in the Update, but does not propose any meaningful change to its methods. The IRP and Update use conservative

assumptions about customer resources and fail to consider increased availability of such resources in response to aggressive and meaningful pursuit of the same. For example, the 2004 IRP and the Update evaluated only those Class 1 DSM programs proposed in response to its 2003 RFP. Reliance only on RFPs to identify and acquire DSM programs is too restrictive and will not capture all available cost-effective customer-based resources. The Company should do more than “provide an avenue” for these types of resources to participate in an RFP process. Rather, the utility should aggressively encourage, solicit, develop and capture all available cost-effective customer-based alternatives. Among other things, additional programs sponsored by the Company directly (and thus underwritten by ratepayers) should be pursued in addition to those undertaken and guaranteed by third-parties in response to DSM RFPs.

3. Transmission

UAE supports the use of transmission additions and upgrades as a means to delay supply side resources and provide timing flexibility for RFPs for necessary supply side resources. The Path C upgrade demonstrates the benefits of transmission upgrades and additions to increase the utilization of current resources. UAE recommends that the company should actively consider other potential transmission projects that would be competitive with supply side resources in meeting system requirements, including but not limited to those identified in the MEHC commitments. The Commission should direct the Company to make analysis and pursuit of all cost-effective transmission upgrades a high priority.

4. Unresolved 2004 IRP Issues.

- *Natural Gas Prices.* As requested by UAE and others, PacifiCorp has updated its natural gas and electricity prices. The Update uses projections from June 2005 that are already out

of date, as will almost always be the case by the time an IRP filing is made. The Company should be encouraged to use updated forecasts to the greatest extent possible and to build in flexibility to reflect such updates. Also, restraint should be exercised to avoid swinging too far in either direction in response to unusual events like the 2005 Fall hurricanes. In addition, the reality that gas and market price projections will always be extremely uncertain and risky should be more clearly acknowledged and addressed in any IRP. Given the substantial gas market trends since the portfolios were created, UAE recommends that the modeling process be modified to capture and quantify these risks, including a larger range of price forecasts as well as the ability to update portfolios on a shorter time frame.

- *Planning Margin.* UAE complained in regard to the 2004 IRP that the Company applied a single criterion – maintaining a 15% margin at the annual system peak – in developing its reference portfolio (IRP pages 53-54, 73). While a higher planning margin may reduce reliability risks, this insurance comes with a significant price tag. The IRP projected additional costs of \$140.5 million for a 15% planning margin, as opposed to the 12% recommended by UAE (IRP page 171). Most of the large electric users who belong to the UAE require a high degree of utility reliability, and they are not willing to take unreasonable reliability risks. However, it is imperative for all customers that risk and reward tradeoffs be carefully evaluated. The IRP fails to demonstrate that the incremental value of a 15% planning margin as opposed to a different planning margin is worth the additional cost. The Oregon Commission Staff challenged the 15% margin and the Oregon Commission ordered PacifiCorp to analyze the issue in more detail and suggested that a 12% margin may be appropriate. [Public Utility Commission of Oregon, “Order,” page 21-22, Order No. 06-029, 1/23/06]. The Commission approved a 12% margin for PGE in

2004. After considering the risk/reward tradeoff, UAE continues to support an IRP base case planning margin of no more than 12%.

- *Carbon taxes.* The IRP Update maintains the same carbon tax assumptions, i.e., a 50% risk of \$8 per ton in carbon taxes by 2010 and a 100% risk of such taxes by 2012. (IRP page 155, Update page 5). All parties agree it is extremely difficult to predict the likelihood or level of potential carbon taxes. Moreover, potential implications of such taxes on the country's economy are staggering. UAE maintains that assuming a 100% chance of \$8/ton carbon taxes by 2012 as the base case is not reasonable. UAE believes that the carbon tax risk *in the base case* should be given a later likely start-date and a lower likelihood, with risk scenarios performed around alternative assumptions.

- *Firm Transmission Rights.* The IRP and Update model firm transmission rights only (IRP page 65). Historically, PacifiCorp has made significant use of non-firm transmission. UAE continues to support the inclusion of reasonable projections as to available non-firm transmission to avoid skewing the results in favor of over-construction.

- *Other Resources.* The IRP Update does not give adequate attention to potentially available market resources that could also serve to delay the need for large new facilities. The IRP and the Update project reduced reliance on contract purchases (Update, Appendix B, Table B.2), without demonstrating that market resources are becoming more scarce. The Nebo and West Valley plants are examples of market resources that are or may become available at reasonable prices in the West. Also, it is UAE's understanding that very little of more than 3,600 MW of available IPP power in the Northwest is under contract beyond 2008, creating significant doubt about the need for another west-side CCCT resource. [The Fifth Northwest Electric Power

and Conservation Plan, Northwest Power and Conservation Council, May 2005, Volume II, page 2-7].

- *IRP Models.* The IRP Update and the Revised Action Plan, like the original 2004 IRP, are based on complex models that have not been made available to the state commissions or their staffs or intervenors, and have never been independently verified. For many years UAE has decried the lack of transparency and availability of the IRP models. The Commission's IRP order directed the Company to address this issue and PacifiCorp claims to have upgraded the models to be used in the RFP process. UAE continues to support strong measures from the Commission to ensure validation, availability and transparency of all of the models used in the IRP process.

The Washington Commission's Order on PacifiCorp's 2004 IRP notes the Company's use of in-house models and recommends that the Company investigate using up-to-date models and tools that are commonly available and used by other utilities. [Washington Utilities and Transportation Commission Review of PacifiCorp's 2004 Integrated Resource Plan, Pages 3-4, Docket No. UE-050095, 6/22/05]. The order also notes that greater detail regarding the modeling tools would improve the value of the findings. Consistent with UAE's comments to this Commission, the Washington Commission stated that PacifiCorp "[n]eeds to allow access to the models used to forecast prices." [*Id.*, page 5] Absent an ability to manipulate the models, the Commission noted that staff cannot evaluate fundamentals or validate reasonableness. UAE strongly urges the Commission to direct PacifiCorp to ensure both transparency and availability of all data and models used in the IRP process.

5. IRP Timing.

UAE is concerned that the Commission must make important resource decisions in the near future without the benefit of a full and current IRP. Rather than doing a full IRP analysis that would consider a wide range of possible resources and portfolios, the IRP Update essentially starts with the 2004 IRP preferred portfolio and then evaluates changes in resource timing and configuration within that portfolio. In the original 2004 IRP the Company derived a number of potential portfolios for consideration. These portfolios were created through the long lead and time intensive modeling process. Although there was only a small difference in PVRR among all the portfolios, a small number were selected for further analysis and selection of the preferred portfolio. The Update process, presumably because of time constraints, consisted of altering this subset of portfolios, rather than creating all new portfolios based on updated assumptions. UAE believes this is a flaw of the Update process and a symptom of a modeling approach that is too time intensive. UAE is not comfortable that the approach used has generated the best preferred portfolio. This concern is heightened in light of the value of flexibility given the timing risk of portfolio resources.

UAE recommends that the Company be directed to begin a new IRP process promptly after it receives the Commission's order providing comments and guidance on the last IRP. Biennial reports are simply not sufficient when the Company projects a need for significant new supply-side resources within its planning horizon. By requiring a thorough IRP analysis to begin promptly after the last IRP cycle is completed, the Commission will maximize the likelihood that it will have the benefit of a reasonably timely and complete IRP to inform resource decisions.

6. SB 26.

The Commission's February 22 Request for Comments invites parties to "recommend an appropriate process for integrating comments on this 2004 IRP Action Plan Update with the pending solicitation for significant energy resources in Docket No. 05-035-47." UAE is an active participant in the SB 26 rulemaking process, and believes that potential longer-term solutions to integrating IRP actions plans with the SB 26 approval process may be proposed in that context. That process, however, is not likely to result in rules that will apply to the impending solicitation processes. Moreover, any solicitation process undertaken in the near future will not have the benefit of a full IRP analysis performed under the SB 26 rules. Accordingly, the best means of integrating Commission guidance on the Updated Action Plan with any near-term resource procurement process may not apply in future circumstances.

UAE submits that the interplay between Commission guidance on the Updated Action Plan and the expected near-term SB 26 resource approval docket should be viewed in the following context:

- The Company must consider feedback and opinions from stakeholders and commissions in six states. The full and specific impact of the existence or absence of this Commission's "approval" or "acknowledgement" of the Updated Action Plan, or even "guidance" relating to the same, is thus very difficult to determine.
- The Commission should assume that the Company will put significant weight on any guidance provided by the Commission in response to the Updated Action Plan, as it should, and that the Company will likely make every effort to pursue a resource procurement path consistent with that guidance. Therefore, the more detailed and specific

the Commission's guidance can be made, the better.

- On the other hand, the Commission is being asked to make important short-term decisions with tremendous long-term consequences without the benefit of a full and timely IRP analysis or meaningful and timely public participation and input. Thus, while detailed and specific guidance is important, maintaining flexibility to ensure the ability to evaluate and pursue all reasonable resource options in the future is very important.
- Guidance provided by the Commission in this docket should not be considered mandatory under all circumstances and should not constitute pre-approval of any particular resource acquisition or plan of acquisition. Pre-approval should come, if at all, in a specific resource approval docket. However, the manner in which the Company responds to the Commission's guidance should be a strong consideration in dealing with a future request by the Company for pre-approval of cost recovery for a specific resource.

Conclusion

UAE appreciates the opportunity to participate in the IRP process and looks forward to continued involvement.

Dated this 5th day of May, 2006.

Hatch, James & Dodge

/s/ _____
Gary A. Dodge,
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was sent by email this 5th day of May, 2006, to the following:

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