State of Utah
Department of Commerce
Division of Public Utilities

FRANCINE GIANI
Executive Director

THAD LEVAR
Deputy Director

PHILIP J. POWLICK
Director, Division of Public Utilities

JON HUNTSMAN Jr.
Governor

GARY HERBERT
Lieutenant Governor

MEMORANDUM

To: Public Service Commission

From: Division of Public Utilities
Philip Powlick, Director
Artie Powell, Manager, Energy Section
Charles Peterson, Technical Consultant
Joni Zenger, Technical Consultant
Hsienming Liu, Utility Analyst
Doug Wheelwright, Utility Analyst

Date: June 17, 2010

Re: PacifiCorp's 2008 Integrated Resource Plan Update, Docket No. 09-2035-01

RECOMMENDATION: No action. As discussed below, the 2008 Integrated Resource Plan (IRP) Update was submitted for informational purposes only, and no action is required by the Commission.

BACKGROUND

PacifiCorp (Company) filed its 2008 IRP on May 28, 2009. The Division, as well as interested stakeholders, filed public comments on June 22, 2009. On April 1, 2010, the Commission issued its Report and Order in this matter acknowledging that the 2008 IRP generally complies with the Standards and Guidelines issued in Docket No. 09-2035-01 on June 18, 1992.

On March 31, 2010, the Company filed its 2008 IRP Update, pursuant to Rule R746-430-1. The Commission held a Scheduling Conference on May 6, 2010 and issued a Scheduling Order and Request for Comments on May 20, 2010.

DISCUSSION

In its April 1, 2010 Report and Order, the Commission provided guidance and directives to the Company for its next IRP or IRP Update. Inasmuch as the 2008 IRP Update was filed one day before the Commission's 2008 IRP Report and Order was issued, the Company would not have conclusive knowledge of the Commission's guidance for this IRP Update (although the Company did have ample time to review parties' comments on the original IRP filing). The Division will determine whether the Company has met the Commission's recent directives when it analyzes the Company's next (2010) IRP.

Regarding the Action Plan that was submitted along with the 2008 IRP Update, Rule R746-430-1(3) provides the procedural and information requirements when an Action Plan is submitted:

> Nothing in these rules requires any acknowledgment, acceptance or order pertaining to the Action Plan submitted. Any review or guidance provided by the Commission shall not be binding on the Affected Utility and shall not be construed as approval of any action or resource identified in the Action Plan.

Inasmuch as the rule does not require acknowledgment of the Action Plan and the Company does not request acknowledgement of its 2008 IRP Update, the Division recommends no action be taken by the Commission at this time. Although the Commission may provide nonbinding guidance to the Company regarding the Action Plan, the 2010 IRP cycle has already begun and the Division believes that attention should be focused on ensuring that the 2010 IRP adheres to the guidance and directives previously provided by the Commission in its 2008 IRP Report and Order.

The Division filed extensive comments on the Company's 2008 IRP on June 22, 2009. The concerns expressed in those comments are ongoing. However, the Division does note some apparent improvement upon which we will comment later. Rather than restating many of those concerns, the Division's comments herein will briefly discuss changes between the 2008 IRP and the 2008 IRP Update and Action Plan.

On May 26, 2010, the Division reviewed the Company's 10-year Business Plan for the period 2010 – 2019 (Business Plan) at the Company's corporate headquarters in Salt Lake City.[1] The Division reports that the IRP Update and Action Plan reflect the Company's strategy contained in its Business Plan of maintaining reliability, customer service, operational efficiency, and cost control in the midst of a recessionary climate. The IRP Update and Action Plan identify the intended specific resource decisions consistent with its Business Plan and describe why deviations have been made from the 2008 IRP. Consistency between the IRP process and the Business Plan has been a concern of the Division in past IRPs. This IRP Update appears to have been developed directly in concert with the business planning process. The Division appreciates that the two are joined together in the current effort and hopes that the connection will continue in future IRPs.

The 2010 Business Plan resource portfolio was created based on the Company's October 2009 load forecast, whereas the 2008 IRP input assumptions were based on the February 2009 load forecast. The October load forecast resulted in lower loads for the system as a whole throughout the time period considered.[2] The current recessionary economic environment along with slower growth expectations going forward are drivers for these assumptions.

Individual states, however, show differing load growth patterns in the Update compared to the 2008 IRP. For example, in the Update, Utah's load forecast is lower than in the 2008 IRP for the years 2010-2012; but after 2012 the load growth is much higher, particularly after 2015. Overall the Utah load growth forecast in Table 3.1 of the IRP Update indicates a more aggressive growth rate of 2.3 percent, as compared to the 2.1 percent indentified in Table E.7 of the 2008 IRP. The basis for this forecast of a higher rate of growth for Utah especially during the "out" years is not explained.

[1] DPU Data Request #11.1, May 18, 2010.
[2] 2008 Update, Table 3.3 p. 26.

The Division has reviewed the most recent economic data available for Utah which indicate that Utah's economy suffered less than some parts of the country during the recent recession, but all indications right now are for a very slow recovery. Based upon this information, the Division cannot say that the near-term load forecasts for Utah are unreasonable. However, for the longer term, the Division has concerns.

Exhibit 1 sets forth a comparison between actual year-to-year energy growth in Utah and the forecast energy in the 2008 IRP and 2008 IRP Update. The implicit change in the forecast assumptions for Utah's load growth is apparent between the 2008 IRP and the 2008 IRP Update. Interestingly, the 2008 IRP (Appendix E) has the forecast long-term growth rate of 2.68 percent only slightly above the estimated 15 year historical average annual growth rate of 2.63 percent. The 2008 IRP Update increases the forecast annual growth rate to 2.81 percent.

In addition to the unsupported increase in the rate of growth in the "out" years mentioned above, what is also troubling to the Division is that there appears to be no overall change in growth expectations due to the recession that is just passed and the possible change in the state of the world that may result from the events of this recession; e.g. the damage to the financial markets world-wide, the expected slowing of growth with long-term ramifications for Europe and developing parts of the world and their effects on the United States. These changes may be adequately reflected in the decrease in system load the Company is forecasting but they inexplicably do not flow through to Utah. The Division therefore questions the reasonableness of the Company's load forecast, at least for Utah.

Natural gas prices were updated based upon September 2009 forward price curves; this compares to the October 2008 forward prices used in the original 2008 IRP. In addition, modeling assumptions were updated for electricity market prices, CO_2 emission costs and compliance, the transmission topology, resource costs, DSM penetration, and renewable portfolio standard compliance. With these updates, the Company used its capacity expansion optimization model to determine the timing and types of gas resources and firm market purchases that ultimately result in the 2010 Business Plan portfolio, replacing the preferred portfolio resources determined in the 2008 IRP. The system becomes capacity deficient in 2012 rather than 2011. This is one year later than in the 2008 IRP and is based upon the lower pace of economic activity expected.

The capacity deficiency and continued reliance on front office transactions to cover much of the deficiency has been a concern to the Division, and other Utah parties, for some time. With the forecast of lower economic activity, the Company is able to push out further into the future its need for new generation plant and simultaneously reduce and extend its reliance on front office transactions. The risk in this strategy is that the forecast the Company is relying on may turn out to understate the future energy requirements which would then put the Company, and presumably ratepayers, at increased risk to the volatility and prices of the wholesale electricity market. The Division continues to recommend that the Company work to reduce its reliance on front office transactions in the real world, and not rely on revised forecasts to do so.

The significant resource changes from the original IRP to this update include deferral of the need for new natural gas resources from years 2014 and 2016 to 2015 and 2018, postponing a wind resource acquisitions in the 2012-2016 timeframe, updated in-service dates for the Energy Gateway transmission expansion project, and a 170 MW reduction in the 200 MW expansion of the Utah Cool Keeper program from 2010 through 2012. The IRP Action Plan Update reflects these changes and outlines the actions the Company will take to implement each respective action item.

The reduction in the Utah Cool Keeper program is explicitly called out in the discussion. In the Company's DSM annual report filed with the Commission, the Company indicated that this program grew by approximately 18 MW, or 18 percent to 112 MW under control between 2008 and 2009. In the IRP Update, the Company forecasts an addition of 18 MW in the program in 2010 and then adds a total of only 11 MW in 2011 and 2012, before essentially ending any growth in the program after 2012. The reason given for this significant change in expectation for this program is the Commission's decision to deny modifying the Cool Keeper program to an "opt-out" program instead of the current "opt-in" program.[3] In the 2008 IRP the Company never mentioned that its assumptions were based on the existence of an "opt-out" provision. While the reduction in the expected level of the Utah Cool Keeper program may be appropriate due to the lack of an "opt-out" provision, the Company should have never included the "opt-out" provision in its assumptions in the first place, since it never existed, or at a minimum, should have disclosed the existence of this assumption.

While the Division understands that growth likely would be faster under an opt-out program, there is no explanation why the program is assumed to effectively reach saturation by 2012. The lack of additional savings from this program after 2012 also suggests an overall deterioration in the penetration rate of the program. This deterioration would occur since, presumably, there will be growth in total residential customers between 2012 and 2019 and it would seem reasonable to assume that at least some of the new customers would "opt-in" to the program. Because there is no net growth in DSM savings, this means that existing customers leaving the Cool Keeper program offset any new customer sign ups; overall, then, the number of customers in the Cool Keeper program as a percentage of total customers is expected to decline despite any efforts of the Company to grow the program. This implicit assumption is counterintuitive and unsupported.

Although reduced substantially in early years, the Company has a continuing need for large capital expenditures to support load growth. As indicated in the Business Plan, the Company anticipates that the funding for these capital expenditures will be available at a reasonable cost.

CONCLUSIONS

The Division has determined that the PacifiCorp 2008 IRP Update is consistent with the Company's current Business Plan. Based on the events of the past year, the Company has reduced its growth expectations significantly, which results in a delay in the acquisition of

[3] 2008 IRP Update, pp. 29-30.

generation resources and extends the time period for constructing transmission plant when compared to the 2008 IRP. While the Division believes that this reduction in growth expectations for the near term may be reasonable given the current economic climate, the long-term differences in growth between the 2008 IRP and the 2008 IRP Update are not supported either on a system-wide basis or on a state basis (especially the forecast Utah growth pattern discussed above).

The Division questions the basis, or lack thereof, of the forecast assumptions for the Utah Cool Keeper program. The Division expects a better explanation for this type of forecast assumption in the future.

On a more positive note, the Division appreciates that there is alignment between the current Business Plan and the 2008 IRP and Action Plan, and hopes this alignment and consistency continues.

The Commission gave extensive guidance to the Company for its future IRPs in its April 1, 2010 Decision. The Division looks forward to working with the Company to implement that guidance in its 2010 IRP.

Since there is no action requested or need of the Commission with respect to this Update, the Division makes no recommendations to the Commission.

cc:
Dave Taylor
Pete Warnken
Michael Ginsberg
Patricia Schmid
Michele Beck
Paul Proctor