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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Acknowledgment of PacifiCorp's Integrated Resource Plan 2011	DOCKET NO. 11-2035-01 **COMMENTS AND RECOMMENDATIONS OF THE UTAH ASSOCIATION OF ENERGY USERS ON PACIFICORP'S 2011 IRP**

The Utah Association of Energy Users ("UAE") hereby submits its response to the request of the Utah Public Service Commission ("Commission") for comments on PacifiCorp's 2011 Integrated Resource Plan ("IRP").

General Comments and Recommendations

UAE respectfully submits that Commission review of an IRP should be aimed primarily at the following three goals: (i) determining whether the IRP is sufficiently consistent with the Commission's published Standards and Guidelines to warrant acknowledgment; (ii) providing feedback on how the IRP process can be improved in the future; and (iii) providing specific "review" and "guidance" to the utility under Utah

Code §§ 54-17-101, et seq., on the proposed action plan. While UAE recognizes the significant efforts of the utility, because of a number of concerns about the IRP and PacifiCorp's planning processes in general, as well as very serious concerns about the extraordinary ratepayer impacts, UAE cannot recommend acknowledgment of the IRP.

UAE's primary comments, concerns and suggestions relating to the IRP are as follows:

- Planning Reserve Margin – UAE disagrees with PacifiCorp's proposal to increase the planning reserve margin from 12% to 13%. UAE recognizes that the increased reserve margin results from reliability concerns expressed by some parties and the Commission in the last IRP. However, given the dramatic and unrelenting upward pressure on PacifiCorp's retail rates, Utah businesses cannot afford to underwrite very expensive "reliability insurance" in the form of higher planning margins that translate into more resource additions than are truly needed.

  Planning margin should be viewed as a tool to help evaluate timing for investment in new resources and not a measure of actual or required system reserves. UAE members are as concerned as most customers -- probably more so -- about system reliability. However, this type of reliability insurance comes at great cost. Indeed, the proposed 1% increase in planning reserve alone drives a projected need for an additional gas plant during the planning horizon. Planning reserve should be evaluated in the context of a cost-risk tradeoff, as was done by PacifiCorp in the last IRP. Such an analysis supports continued use of a planning reserve margin of no more than 12%. There has simply not been a cost/benefit tradeoff demonstration sufficient to support an increase in the planning margin to 13%.[1]

- Transmission Upgrades – PacifiCorp has not adequately supported its claim that the remaining segments of the Gateway Transmission project are cost-effective or in the public interest of Utah ratepayers. The results of the System Optimizer model are not valid for future transmission segments. In addition to the significant limitations acknowledged by PacifiCorp itself (IRP at 75-76), the system optimizer model was not able to model dependent changes in affected transmission line capacity, as resources including transmission segments were chosen in a dynamic way (IRP at 67). This calls into serious question whether the portfolio result of the system optimizer is indeed optimal. Because of the limitations of the System Optimizer model noted by PacifiCorp and stakeholders, and given the enormous cost implications for Utah ratepayers, the System Optimizer is not the right tool for evaluation of optimal transmission additions.

  Moreover, the time has clearly come for a serious and comprehensive re-evaluation of allocation of transmission costs. Under current practice, all transmission costs are included in Utah retail rates up front, to be offset by potential future wholesale revenue. The Gateway transmission project was designed and is intended to benefit many groups, including third-party transmission users. Captive Utah retail ratepayers should not be expected, and

[1] UAE members are not alone in expressing concern over the added expense of a higher planning reserve margin. Attached are comments recently filed by the Industrial Customers of Northwest Utilities (ICNU) with the Oregon Public Utility Commission on this topic.

cannot afford, to fully underwrite expensive and risky transmission ventures designed to benefit others. Utah businesses, in particular, cannot bear upfront transmission costs of more than $ 6 billion based on a hope that wheeling revenue may eventually pay a portion of the costs back. Transmission costs should be allocated from the beginning to those who cause the costs and who benefit from them.

In fairness to PacifiCorp and its Utah ratepayers, UAE submits that the issue of the proper allocation of transmission costs among retail ratepayers, wholesale customers and others should be carefully and comprehensively evaluated and resolved by the Commission before any further transmission expenses for the Gateway project are approved, acknowledged, or included in Utah rates. This process should be informed by evolving FERC policies, policies adopted or considered in other states, and traditional regulatory cost-causation/benefit analyses.

- Environmental Upgrades – UAE joins the chorus of voices calling for a thoughtful, comprehensive and meaningful analysis of the costs and benefits of, and available alternatives to, very expensive environmental upgrades planned by PacifiCorp in the upcoming years. This growing chorus includes numerous regulatory, customer and special interest groups. UAE does not oppose environmental upgrades necessary to keep PacifiCorp's existing fleet operational, so long as that course is shown to be the lowest reasonable cost alternative. PacifiCorp has not yet demonstrated to UAE's satisfaction that the expensive environmental upgrades likely to be required by existing and future regulations represent the least cost/least risk alternatives for Utah ratepayers. UAE cannot support further ratepayer underwriting of such expenditures until a meaningful and comprehensive evaluation of costs, benefits and alternatives has been conducted in the context of the IRP, and approved by the Commission.

- Resource Acquisition and Regulatory Policy Risk Assessment - For the 2011 IRP, the company performed an initial and final screening of the portfolios using a set of publically vetted metrics in a straightforward and reasonable way in phases 5 and 6 of the modeling process. However, in phase 7 the company performs "fine tuning" (IRP at 202) on the preferred portfolio selected prior to this phase. From the text in Chapter 7, the portfolio selected can be adjusted for gas plant timing, geothermal citing risk avoidance, and renewable energy regulatory compliance risk. This fine tuning is reminiscent of the "hand picking" issue of the 2006 IRP and discounts the value of the public input and modeling process. UAE recommends that the issues intended to be addressed by the "fine tuning" be represented in the modeling process to avoid the real or perceived bias of manual adjustments.
- Company Resource Deficiencies. The amount of utility staff and resources allocated to IRP modeling efforts is insufficient to meet the objectives of the group. PacifiCorp should be directed to supplement existing resources to alleviate constraints and allow modeling resources to better understand and leverage the modeling tools. This should be done in a context of better management of the tradeoffs between using updated information, modeling

times, providing comprehensive understandable results, and time for stakeholders to review and perform analyses. UAE continues to recommend the use of less cumbersome and more transparent and available IRP models that are more adapted to a fast changing environment and available for stakeholders to access and validate.

Standards and Guidelines

In this section, each of the existing Standards and Guidelines is reproduced in bold, followed by UAE's comments as to the IRP's consistency with the same, its recommendations for improvements, and its suggestions for Commission guidance that should be provided.

1. 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.

UAE Comments*:* The IRP attempts to satisfy this requirement, although it fails to provide sufficient analysis of certain resource issues, including transmission. In the current environment there are a number of limitations to nearly all potential resources. Coal resources are limited by regulation and environmental uncertainty. Nuclear resources are long lead time resources and also limited by regulatory and approval processes. Wind resources are limited by integration concerns. DSM resources are limited by their potential and are generally not large resource options. Market purchases are already planned at a high level and the ability to increase is uncertain. Most other resources besides natural gas resources are unproven and therefore uncertain. It is thus no surprise that the IRP process produced a portfolio with major resources additions made up of gas plants. However, transmission options are not adequately modeled or supported, and Commission acknowledgment of the same should be withheld.

2. The Company will submit its Integrated Resource Plan biennially

***UAE Comments**:* The Company has mostly complied with the requirement for biennial IRP filings despite some schedule slippage. UAE has previously recommended, and continues to support, a revision to the Standards and Guidelines to require annual IRP filings as many modeling assumptions experience substantive changes frequently, and so long as significant resource additions are projected.

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.

***UAE Comments**:* PacifiCorp actively solicited public input. The value and consequences of that public input are limited, however, by timing constraints and the nature of the process itself – there is no effective means for fully vetting or analyzing the value of public input or of PacifiCorp's reasons for incorporating or ignoring such input.

PacifiCorp satisfied the commission requirement from the last IRP for a full day meeting regarding training with regards to the System Optimizer and PaR models. However, notwithstanding the day of training and the increased amount of data provided by the Company, the quality of public input would be significantly increased if the regulators and other interested parties were permitted access to operate the modeling tools for verification of the models, the output data and how results change via inputs. PacifiCorp uses extremely complex and often confidential custom modeling tools and deploys limited resources to use those modeling tools. UAE urges consideration of alternative modeling approaches, an increase in PacifiCorp resources to perform modeling, and an expanded look by stakeholders into the modeling tools.

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.

UAE Comments*:* The IRP evaluates various load growth projections and assumptions and generally satisfies this requirement. UAE continues to believe that a higher level of customer responsiveness to aggressive cost allocation/rate design changes or DSM programs may be available.

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.

UAE Comments*:* The IRP appears generally to satisfy these requirements as to generation resources, although not as to transmission resources. UAE supports more aggressive pursuit of cost-effective alternatives to traditional supply-side resources, including distributed generation, DSM, CHP, cogeneration and cost allocation/rate design changes. With proper price signals, such resources could significantly improve the efficiency of the grid, resulting in lower emissions, lower utility reserve margins, improved reliability and reduced need for transmission investments. UAE urges abandonment of resistance to customer-based resources and support for meaningful and realistic pricing and contract terms in order to encourage cost-effective development of demand-side and customer-based resources. These highly-efficient resources should be strongly encouraged and incentivized.

UAE sees a significant risk of higher natural gas prices in the future, as well as a risk of carbon taxes. UAE recognizes the work done with the Integrated Planning Model (IPM) to capture this relationship in this and the previous IRP. This process was not given as much attention in this IRP as would have been valuable, especially to those new to the process.   It is important that the potential risk of higher priced natural gas generation be accurately shown to all stakeholders as one of the byproducts of avoiding more carbon intensive generation.

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

UAE Comments*:* UAE emphasizes its longstanding support for an open, fair, competitive RFP process as a crucial tool to the selection of the most desirable resources, regardless of ownership or affiliation and the need for the Commission to take an active role in ensuring a fair and unbiased outcome in resource procurement proceedings.

d. A 20-year planning horizon.

UAE Comments*:* The IRP utilizes a 20-year planning horizon as required by the Standards and Guidelines. However, that planning horizon may be inadequate for proper consideration of some resource options, such as nuclear.

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.

UAE Comments*:* The IRP generally satisfies this requirement. However, a short-term action plan is inadequate, given the expansive time required to build or acquire certain types of resources. UAE supports expansion of both the planning horizon and the action plan sufficient to accommodate all resource options.

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.

UAE Comments*:* The IRP attempts to meet this requirement at pages 265-270. UAE appreciates the increased detail, including the analysis of procurement risk, availability of Front Office Transactions and other market purchases. UAE suggests that, in addition to the detail supplied in this section of the IRP, the next IRP should also include the estimated increase in cost of the alternate near and long term acquisition strategies.

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.

UAE Comments*:* The IRP attempts to satisfy this requirement by evaluating cost-effectiveness of the portfolios in the Final Screening (IRP at 217). However, the IRP does not adequately explain the extraordinary customer rate impacts that will result from the planned resource acquisitions; nor does it adequately explore other options that may reduce rate impacts. Utah business customers are already reeling from the impacts of rate increases of approximately 15% over an 18-month period (1/1/11 to 6/1/12), with sustained and significant rate increases promised for some time thereafter. These types of rate impacts are simply not sustainable for Utah business.

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.

UAE Comments*:* The IRP's evaluation of risks appears generally to satisfy this requirement as to generation resources.

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.

UAE Comments*:* The IRP's Action Plan and Acquisition Path appear to make a good faith effort to satisfy this requirement as to generation resources.

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

UAE Comments: The IRP discusses conflicts and tradeoffs between cost and risk. However, the cost/risk tradeoff of selecting a 13% reserve planning margin has not been adequately addressed or demonstrated.

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.

UAE Comments*:* The IRP's discussion of various externalities appears generally to satisfy this requirement.

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.

UAE Comments: The 2011 IRP does not appear to address rate design issues. UAE believes that additional attention is warranted to the use of different cost allocation and rate design changes, as well as DSM, to better address peak demand growth in Utah.

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

UAE Comments*:* The IRP was submitted for public review and comment in general satisfaction of this requirement. However, as discussed above, public and regulatory input to the IRP process would be significantly improved by even greater access to models relied upon in the IRP process.

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.

UAE Comments*:* UAE appreciates the opportunity provided by the Commission for interested parties to comment on the IRP.

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

UAE Comments*:* UAE agrees with this policy, and also supports a more active Commission role in shaping the resource selection process to better reflect customer cost and risk concerns.

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

UAE Comments*:* UAE agrees with this policy, although it notes that rate case evaluation of the prudence of specific resources is difficult in the context of the utility's overall resource planning. UAE supports a more active Commission role in shaping and directing the company's resource acquisition policies and practices.

Conclusion

While the IRP makes a good-faith attempt to respond to the requirements of the Commission's Standards and Guidelines, UAE has several concerns that should be addressed and resolved before the IRP should be acknowledged. UAE recommends that the Commission provide guidance to the utility consistent with its comments herein. UAE appreciates the opportunity to participate in the IRP process and looks forward to continued involvement.

Dated this 7th day of September, 2011.

Hatch, James & Dodge

/s/ ___________________________________
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CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was sent by email this 7th day of September, 2011, to the following:

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