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Division of Public Utilities

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DIVISION COMMENTS

To: Public Service Commission

From: Division of Public Utilities

Chris Parker, Director
Artie Powell, Energy Section Manager
Joni Zenger, Technical Consultant
Charles Peterson, Technical Consultant
Hsienming Liu, Utility Analyst
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Date: June 8, 2012

Re: Docket No. 11-2035-01, PacifiCorp's 2011 Integrated Resource Plan Update and Action Plan—No Action Required

RECOMMENDATION (No Action Required)

No action. As discussed below, the 2011 Integrated Resource Plan (IRP) Update was submitted for informational purposes only, and no action is required by the Commission.

BACKGROUND

On March 31, 2011, PacifiCorp (Company) filed its 2011 IRP with the Utah Public Service Commission (Commission). The Company prepares its IRP on a biennial schedule, filing its plan with state utility commissions in its six-state jurisdiction during each odd numbered year. In the even numbered years, as in this year, the Company files an update to its IRP.

On March 30, 2012, the Company filed an update to its 2011 Integrated Resource Plan (IRP Update). The 2011 IRP Update includes a revised Action Plan, which according to Utah Admin. Code R746-430-1(2) (a), requires that the Commission conduct a scheduling conference and set a schedule for interested parties to obtain information and file comments on the Action Plan. The Commission convened a scheduling conference on April 26, 2012, and issued a Scheduling Order and Request for Comments on May 20, 2010.

In its March 22, 2012, Report and Order on PacifiCorp's 2011 IRP, the Commission provided guidance and directives to the Company for its next IRP or IRP Update but did not acknowledge the Company's 2011 IRP. Specifically, the Commission stated the following:

While we view the IRP as an evolving process, we find the Company has not sufficiently complied with the Guidelines as discussed herein and therefore we do not acknowledge IRP 2011. While the IRP is adding complexity, it is also losing transparency. Rather than modify this IRP, we think it more efficient and a better use of everyone's time to continue forward. We provide guidance herein to assist in achieving greater transparency of IRP results. Specifically, we provide guidance to the Company for additional information to be filed in the IRP update proceeding or to address in its next IRP.¹

Inasmuch as the 2011 IRP Update was filed approximately one week after the Commission issued its Report and Order on the 2011 IRP, the Company did not have adequate time to incorporate the Commission's guidance for this IRP Update. Therefore, the Division of Public Utilities (Division) will determine whether the Company has met the requirements of the Commission's 2011 IRP Report and Order when it analyzes the Company's 2013 IRP. The Division concurs with the Commission that an efficient use of time and effort would best be achieved by focusing efforts to the future, specifically toward working on the 2013 IRP. Nevertheless, the Division provides limited comments on the 2011 IRP Update and the 2011 IRP Action Plan. The following comments are intended to serve as the response of the Division to the Commission's request.

¹ Report and Order on PacifiCorp's 2011 Integrated Resource Plan, March 22, 2012, p. 22.

PACIFICORP'S 2011 IRP UPDATE AND ACTION PLAN

The Division, as well as numerous other parties, previously filed comments with the Commission regarding the Company's 2011 IRP.² The Division, based on its own independent analysis of the load and resource deficit, determined that the Company's resulting preferred portfolio appeared reasonable. However, without many of the input assumptions to the model and access to the model itself, the Division did not have enough information to determine if the resulting preferred portfolio was the least-cost, least risk outcome. In addition, the Division found that the IRP compliance requirement with respect to hedging was not met, but otherwise the 2011 IRP reasonably met the Commission's other requirements. Rather than restating many of its previous concerns, the Division's comments herein will briefly discuss changes between the 2011 IRP and the 2011 IRP Update and Action Plan.

The Company's 2011 IRP Update and revised Action Plan makes significant changes to the original IRP filing. The revised resource portfolio and IRP Action Plan reflect the outcome of the Company's 10-year Business Plan (2012 Business Plan) for the years 2012 -2021.

The 2012 Business Plan was approved by the Board of Directors of MidAmerican Energy Holding Company (MEHC) on December 9, 2011.³ On April 4, 2012, the Division reviewed the 2012 Business Plan at the Company's headquarters in the Utah One Center and reports that the IRP Update and Action Plan reflect the Company's strategy contained in its Business Plan of maintaining operational efficiency, reliability, and customer service in the midst of a slower than expected economic recovery. The IRP Update and Action Plan identify the intended specific resource decisions consistent with the 2012 Business Plan and describe why deviations have been made from the 2011 IRP. To this effect, the integrated resource planning process and the business planning process are aligned.

² On September 7, 2011, in Docket No. 11-2035-01, the following parties filed comments to the Utah Commission: Interwest Energy Alliance, Utah Clean Energy, Western Resource Advocates, Sierra Club, Utah Association of Energy Users, Office of Consumer Advocates; HEAL Utah, Utah Moms for a Clean Air and Utah Physicians for a Healthy Environment; and, HEAL Utah, Power River Basin Resource Council, Idaho Conservation League, and Sierra Club National.

³ PacifiCorp's 2011 IRP Update, March 30, 2012, p. 13.

The following events have come to light subsequent to the filing of the 2011 IRP in March 2011, requiring updated assumptions:

- The Southeast Idaho Exchange Agreement terminates in 2016, removing PacifiCorp's obligation of 189 MW of firm peak load for Bonneville Power Association's (BPA) Idaho resources. This is offset by reduced power purchases of approximately 200 MW in PacifiCorp West Balancing Area (PAC-West).
- Several industrial customers opted to self-generate, which offset retail loads.
- The IRP Update assumed the certain PURPA Qualifying Facilities will also elect to self-generate through 2016 rather than sell their output to PacifiCorp, reducing supply.
- The IRP Update includes the retirement of Carbon 1 and Carbon 2 coal-fired plant as of January 1, 2015 in order to meet the Environmental Protection Agency's (EPA) new Mercury and Air Toxic Standards (MATS).
- The capacity ratings for a number of existing owned generating units have been updated.
- The termination of the Grant Mid-Columbia hydro contract in 2013.
- Two coal plant turbine upgrade projects will be cancelled. (Huntington 2 in 2016 and Hayden 2 in 2021.)

In addition, the Company lowered its forecasted natural gas and wholesale electricity prices. Natural gas prices were updated based upon September 2011 forward price curves; this compares to the September 2010 forward prices used in the original 2011 IRP. Other updates were made to CO₂ emission costs and compliance, the transmission topology, resource costs, DSM penetration, and renewable portfolio standard compliance.

The planning chapter of the IRP Update contains an extensive section on the emerging environmental regulations and the difficulty that the uncertainty plays in the planning process. Regarding, the business planning environment, the Company plans to retire Carbon Units 1 and 2 (172 MW) as of January 1, 2015. With respect to resource procurement, the update notes that on April 20, 2011. The Utah Commission granted conditional authority for the Company to proceed with its Lake Side 2 combined-cycle combustion turbine project.

In addition, the Company issued an all-source request for proposals (RFP) on January 6, 2012 for the potential acquisition of approximately 600 MW of base load, intermediate load and summer peak resources by June 1, 2016 (depending on an updated resource needs assessment and other factors). The Oregon Commission approved the RFP on March 27, 2012 and bids were due on May 9, 2012. Bids are currently being reviewed by an independent evaluator and the final short list is expected to be approved in October 2012 in Oregon. In early 2013, once a final resource decision has been made, the Company will file an application for a "Major Plant Addition" approval proceeding in Utah.

The Company also issued a solar RFP in Oregon and is scheduled to begin construction in May 2012 of a two-megawatt, 9,000 panel solar installation. Commercial operations are expected in October 2012.

The Company delayed anywhere from one to three years several Energy Gateway transmission segment in-service dates due to continued challenges in planning, permitting, and building these transmission expansion segments. This triggered a one-year deferral of planned wind resources which rely on transmission to transport the wind from typically remote resource locations to the points of delivery. The Company states in its Energy Gateway Transmission Program Planning that it is committed to the Energy Gateway project, but due to FERC Order No. 1000, a new action plan has been created to demonstrate and quantify the benefits of the Energy Gateway Transmission Project beyond the traditional methods of new power cost and least-cost analyses. In addition, the Oregon Commission, in its IRP Order, required an additional commitment from the Company as stated below: "In the scenario definition phase of the IRP process, the Company will address with stakeholders the inclusion of any transmission projects on a case-by-case basis."⁴

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 2012 Business Plan portfolio, replacing the preferred portfolio resources determined in the 2011 IRP.

⁴ Id. at p. 25.

The short capacity system position in the 2012 Business Plan has improved by 383 MW in 2012, 553 MW in 2013, and 149 MW in 2014, relative to the 2011 IRP. In 2015 and 2016, the system capacity deficit is shorter by 48 MW and 93 MW, respectively. Over the period 2017 through 2021, the system capacity position is on average 48 MW shorter in the 2012 Business Plan than in the 2011 IRP. However, the need for a 2016 resource remains unchanged, given a 93 MW capacity deficit in the year 2016.

With a revised RPS compliance analysis, 550 MW of wind resources are deferred over the period from 2018 through 2021. The deferral is consistent with a lower load forecast, assumed delays in federal RPS policies, a one-year delay in the Windstar to Populus transmission segment, and an assumption that production tax credits will not be available for the 10-year planning period. With respect to front office transactions (FOT), the 2012 Business Plan portfolio includes an increase of 138 MW of west side FOTs. Due to favorable wholesale electricity prices, the CCCT in 2019 is reduced in size (393 MW rather than 475 MW) in the Business Plan portfolio as compared to the 2011 IRP preferred portfolio.

Also included as part of the IRP Update filing is Appendix A that contains a redacted version of the Company's Confidential Coal Study Update and Appendix B which provides additional load forecast details, specifically incorporating demand-side management (DSM) into the retail sales forecast.

With respect to the revised Action Plan, the Division makes a few remarks that are not intended to be comprehensive of the Action Plan as a whole. However, one of the first Action Items states that the Company will establish a technical review committee (TRC) to continue to refine the wind integration modeling approach. The Oregon Commission required this action item in its IRP Order. The Division was not notified of the formation of this committee, and discovered that the TRC had previously been formed and had held several meetings without Utah participation. After the matter of the fact, Randy Falkenberg was added to the TRC. The Division strongly urges the Company to inform Utah stakeholders of IRP planning issues at the

same time as when it shares information with other stakeholders. The Company cannot claim that the IRP process is open and transparent, with input from interested stakeholders on this action item, when the Division is not even notified of such actions. Nevertheless, we will follow the TRC findings as they become available.

The Action Plan also contains an action item continuing the flywheel energy storage demonstration project, subject to approval by the Utah Commission to defer and recover costs through the DSM surcharge. New in this planning cycle is a conservation voltage reduction program (CVR) stemming from the Washington Commission guidelines. The Division looks forward to learning about the results of the CVR evaluation. Also, plug-in electric vehicles and Smart Grid technologies are Action Items to be discussed in the next IRP cycle.

Inasmuch as the initial FERC Order 1000 compliance deadline approaches in October 2012, the Company has an action item for a proposed evaluation process and matrix for evaluating transmission additions. Future transmission project will be evaluated on a case-by-case basis as a result of the Oregon compliance criteria mentioned above.

The planning reserve margin is the last action item in the Action Plan. The Division has repeatedly expressed concerns about maintaining an appropriately high enough planning reserve margin. The action item includes a sensitivity analysis that the Company will use to compare the resource and cost impacts of a 12 percent versus a 13 percent planning reserve margin. The analysis will be conducted for the all-source RFP, but the results will be part of the updated resource needs assessment for the next IRP. However, the Division understands that, as currently proposed, this sensitivity analysis is limited to the cost differential between the two reserve margins and will not consider the benefits that might accrue from a greater reserve margin. The Division believes this type of analysis will yield limited information in terms of resource planning. Therefore, as in the past, the Division suggests that the sensitivity analysis should include other traditional metrics that support the Company's choice of an appropriate reserve margin.

CONCLUSION

The Division appreciates the opportunity to comment on the 2011 IRP Update and Action Plan. The Division finds that the IRP process is continually evolving and improving and must be somewhat flexible in a changing environment. The Division has determined that the PacifiCorp 2011 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 somewhat, resulting in a delay in the acquisition and/or timing of capital expenditures on various projects.

The Commission gave extensive guidance to the Company for its future IRPs in its March 22, 2011, Report and Order. The Division looks forward to working with the Company to implement that guidance in its 2013 IRP.

Regarding the Action Plan that was submitted along with the 2011 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 2011 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 2013 IRP cycle has already begun, and as mentioned previously, the Division believes that attention should be focused on ensuring that the 2013 IRP adheres to the guidance and directives previously provided by the Commission in its 2011 IRP Report and Order.

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