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DIVISION COMMENTS

To: Utah Public Service Commission
From: Utah Division of Public Utilities
Chris Parker, Director
Artie Powell, Energy Section Manager
Joni Zenger, Technical Consultant
Date: June 29, 2016
Re: Docket No. 15-035-04 - PacifiCorp's 2015 Confidential Integrated Resource Plan Update and Request for Waiver of Business Plan Sensitivity Case

COMMENTS AND RECOMMENDATION (DENY THE COMPANY'S REQUEST FOR WAIVER)

The Division has reviewed PacifiCorp's Confidential 2015 Integrated Resource Plan Update (2015 IRP Update). As discussed below, the 2015 IRP Update was submitted for informational purposes only, and no action is required by the Commission on this issue.

With respect to the Company's Request for Waiver of the requirement to include the Business Plan as a sensitivity case in future IRPs, the Division recommends the Commission deny the Company's Request for Waiver. Instead the Division recommends that the Commission amend its requirement for all future IRPs to direct the Company to file its Business Plan sensitivity case and Business Plan assumptions to specific parties, with others able to petition for access to the information. This change would not necessitate any amendments to the Commission's Standards and Guidelines.

ISSUE

On March 31, 2015, PacifiCorp (Company) filed its 2015 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. Therefore, on March 31, 2016, the Company filed its 2015 IRP Update. On April 7, 2016, the Commission issued a Scheduling Order requesting interested parties to file comments on the 2015 IRP Update by June 29, 2016, with reply comments due on or before August 8, 2016. Also on April 7, 2016, the Company filed a Request for a permanent Waiver of the current Commission requirement to include the Business Plan as a sensitivity case in the Company's subsequent IRPs. This memorandum is provided as the response and comments of the Division regarding both the Company's 2015 IRP Update and the Company's Request for Waiver of the Business Plan sensitivity requirement.

DISCUSSION OF 2015 IRP UPDATE

The Division appreciates this opportunity to provide comments on the Company's 2015 IRP Update and will briefly discuss key aspects of the 2015 IRP Update, recommendations and requirements from the Commission in its 2015 IRP acknowledgement order,¹ and status updates to the Action Plan. This memorandum does not comment on or discuss all possible topics. The Division previously provided detailed comments, with a discussion of key items on the Company's March 31, 2015 IRP filing.²

The IRP Update is typically filed for informational purposes only, and according to Utah Administrative Rule R746-430-1(3), no action is required by the Commission.³ The Company's 2015 IRP Update filing includes an Action Plan and an Action Plan Update. According to R746-430-1, an Action Plan is defined as follows (*italics added*):

¹ Docket No. 15-035-04, Report and Order, January 8, 2016.

² Docket No. 15-035-04, Division Comments on PacifiCorp's 2015 IRP, August 25, 2015.

³ "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."

A plan, prepared or updated in anticipation of the acquisition of the Affected Utility's significant energy resource(s) under the Energy Resource Procurement Act, Utah Code Title 54 Chapter 17, outlining actions and specific resource decisions intended to implement an Affected Utility's Integrated Resource Plan *consistent with the utility's strategic business plan* [emphasis added].

The Division calls attention to the words “consistent with the utility’s strategic business plan” (the Company’s 10-Year Business Plan) or (Business Plan) to point out that in order for the Division to determine if the Action Plan is in fact consistent with the utility’s Business Plan, the Division would need to have access to and be able to review the Business Plan. Therefore, by definition, the Action Plan must in some way be consistent with the utility’s strategic business plan. (A discussion of the importance of this fact is in the section on the Company’s Request for Waiver). The Business Plan considers capital expenditures and operating cost constraints with input from its various business units to ensure that the resource portfolio mix is financially supportable and affordable to customers.

The Company’s 2015 IRP Update describes resource planning and procurement activities that have transpired since the March 31, 2015 filing of the 2015 IRP. The business planning process occurs after the 2015 IRP filing and before the 2015 IRP Update. This means that the 2015 IRP Update takes into account the capital expenditures and operating cost constraints that emanate from the Business Plan, usually completed in the fall of each year and signed by the Company’s high-level executives in December of each year.

The 2015 IRP Update brings up-to-date inputs and assumptions, such as the load forecast, market prices, capital costs, state and federal regulations, and a myriad of other changes to the planning environment that have occurred over the course of the year. In terms of resource planning, this past year (as well as 2015) brought some significant public policy changes. These policy changes include new or revised federal and state environmental policies, such as the Clean Power Plan (which has been stayed by federal court), Clean Air Act, Regional Haze rules, and revised renewable portfolio standards (RPS) targets for California and Oregon.

The 2015 IRP Update produces an updated resource portfolio mix and updates or revisions to its 2015 IRP action plan resulting from the changes to the planning environment and the refreshed inputs. The Company's 2015 IRP Update presents the changes relative to the 2015 IRP and relative to its Business Plan. Updates to the resource portfolio continue to show that the Company's first year of a major resource addition is planned to occur in 2028, consistent with the 2015 IRP Preferred Portfolio. The 2015 IRP Update also addresses various recommendations and requirements put forth by state regulatory commissions as part of the 2015 IRP acknowledgment process.

KEY UPDATES

Load forecast. The 2015 IRP Update and Business Plan use the same October 2015 load forecast, relative to the September 2014 load forecast in the 2015 IRP. The coincident system peak load forecast for the IRP Update and Business Plan is lower, on average across the front ten years of the planning period by 54 megawatts (MW) relative to the 2015 IRP. The small projected load growth in the residential and commercial classes appears to be offset by weaknesses in the industrial class. This is due to a decrease in market sales in the industrial class on the east side of the system and the projected loss of a large industrial customer on the west side of the system.

Market prices. Forecasted natural gas and energy prices continue to decline from those assumed in the 2015 IRP. Domestic natural gas price forecasts continue to decline due to the growth in unconventional shale gas plays. This decline, combined with lower load forecasts, puts downward pressure on market power prices. The 2015 IRP Update was refreshed using a December 31, 2015, official forward price curve (OFPRC) for natural gas and power prices by point of delivery, as compared to the September 2014 OFPRC used in the Business Plan and in the 2015 IRP. Low gas prices, combined with low loads, translates to lower power price forecasts.

Energy efficiency. Energy efficiency remains a key element for managing future energy demands. In the 2015 IRP Update, the Company estimates that approximately 87 percent of expected growth in power usage will be met by customers using electricity more efficiently.

Front office transactions. The availability of 1,670 MW of front office transactions (FOTs or market purchases) will be used to meet the 2015 IRP Update's open system position of 1,056 MW in the front ten years of the planning horizon. As stated in previous IRP dockets, the Division believes the Company's proposed levels of reliance on market purchases need to continue to be monitored and further evaluated to ensure availability in the western markets. The Company needs to explain what is the contingency plan should these market purchases become unavailable for one reason or another.

Naughton Unit 3 closure. In the 2015 IRP development process, analysis of near-term regional haze compliance requirements supported converting Naughton Unit 3 to burn natural gas in 2018. However, in the 2015 IRP Update, with reduced load, lower market prices, and increased costs for gas conversion, the refreshed analysis shows that retiring Naughton Unit 3 at the end of 2017 is a lower cost alternative than the assessed gas conversion approach. (Confidential Appendix B to the 2015 IRP Update contains the updated economic analysis of regional haze compliance alternatives for Naughton Unit 3.)

As a result of the updated analysis, the 337 MW thermal generation capacity of the converted Naughton Unit 3 is no longer included in the 2015 IRP Update resource portfolio after year-end 2017. The Company states it will continue to review emerging technologies, reassess traditional gas conversion technologies and costs, and consider other alternatives that would allow continued operation of Naughton Unit 3 beyond 2017.

Cholla Unit 4 closure. Cholla Unit 4 (380 MW) is owned by PacifiCorp, but operated by Arizona Public Service. The U. S. Environmental Protection Agency (EPA) requires the installation of selective catalytic reduction (SCR) equipment on Cholla Unit 4. PacifiCorp has

filed an appeal in Arizona, but for planning purposes, the Company assumes the status quo. For capacity planning purposes, considering the unknown outcome of the appeal combined with the updated load, lower market prices, and expected costs for gas conversion, the Company's 2015 IRP Update assumes Cholla 4 will shut down at the end of 2024. The Division will review the Cholla Unit 4 analysis that will be provided in the Company's 2017 IRP.

Load and resource balance. In the 2015 IRP Update the Company's projected position shows a greater difference between the load and resources beginning in 2018, relative to the 2015 IRP, primarily due to the assumed early retirement of Naughton Unit 3 (337 MW) at the end of 2017 and Cholla Unit 4 (380 MW) at the end of 2024. For 2016, the Company has a total resource mix of 10,131 MW to meet its load obligation of 9,878 MW, plus a 13 percent planning reserve requirement of 1,309 MW. This leaves an open system position of 1,056 MW that will be met with the 1,670 MW of front office transactions that are available. However, by 2025, absent any future actions, the total resources shrink to 9,668 MW, while the load obligation grows to 10,961 MW, with a reserve requirement of 1,450 MW. This leaves an open position projected at 2,743 MW that the 2015 IRP Update shows will be met largely through the acquisition of cost-effective energy efficiency resources and front office transactions over the next 10 years.

Qualifying facilities. The Company's projected open position will be partially offset by the addition of new wind and solar qualifying facility contracts. In the 2015 IRP Update the wind and solar power purchase agreements (PPAs) have increased by 411 MW (177) on a peak contribution basis in comparison to the 2015 IRP wind and solar PPAs.

Public policy changes. The 2015 IRP Update assumptions include the increased RPS requirement of 50 percent by 2030 in California and of 50 percent by 2040 in Oregon. The Company updated its Action Plan to issue requests for proposals this year seeking both renewable energy credit purchases and resource procurement alternatives.

State and federal compliance. To help the Company remain prepared to support state compliance with potential greenhouse gas regulations, the 2015 IRP Update includes an assessment of the EPA Clean Power Plan using a mass-cap approach, even though the plan is currently on hold pending litigation. On Feb. 9, 2015 the U.S. Supreme Court issued a stay of the plan, suspending implementation of the rule pending the outcome of litigation before the U.S. Court of Appeals for the District of Columbia Circuit.

The 2015 IRP Update also includes a discussion of EPA's final regional haze Federal Implementation Plan (FIP) requirements for installing SCR at Dave Johnston Unit 3 and Wyoming's appeal to the U.S. Court of Appeals for the 10th Circuit. If EPA's plan is upheld, the Company states that it will shut down the unit by the end of 2027. The Company will, however, continue to pursue its own appeal of the EPA's plan as it pertains to installation of similar pollution controls at the Wyodak plant in Wyoming.

Transmission. The 2015 IRP Update includes updates for the Energy Gateway and Wallula-to-McNary transmission projects. Permitting for Energy Gateway will continue on several segments of the project, and construction should begin for the Wallula-McNary 230-kV line such that the line will be in service in 2017. In the longer-term, the 2015 IRP Update views the retiring coal facilities as an opportunity to free up transmission in renewable resource rich areas and provide access to low cost resources that are currently constrained by lack of transmission.

2015 ACTION PLAN STATUS UPDATES

The Action Plan identifies the steps the Company intends to take during the next two to four years to implement the first 10-year resource timeframe (2015-2024) of the 2015 IRP. In the preface of its IRP, the Company states "that the IRP action plan will be implemented as described herein, but is subject to change as new information becomes available or as circumstances change."⁴ The Company revisits and refreshes the IRP action plan annually to reflect the many changes in the planning environment that were discussed above. Since the

⁴ Docket No. 15-025-04, PacifiCorp's 2015 IRP, March 31, 2015, p. ii.

March 31, 2015 IRP was filed, the Company updated the Action Plan with the following changes:

- Action Item 1a (RPS Compliance) has been changed to issue requests for proposal (RFPs) for renewable energy credits (RECs) and near-term resource procurement opportunities that can be used to meet RPS requirements in Oregon, Washington, and California.
- Action Item 1c (Oregon Solar Capacity Standard) removes this action item because the solar capacity standard was eliminated when Oregon Senate Bill 1547-B was signed into law.
- Action Item 4a (Naughton Unit 3) has been updated to reflect the Company's refreshed proposal and updated analysis of the Naughton Unit 3 gas conversion. Confidential Appendix B to the 2015 IRP Update summarizes the Company's updated analysis.

With respect to the status update of each of the action items in the Action Plan, Chapter 6 of the Company's 2015 IRP Update reports the progress of five primary action item categories: (1) renewable resource actions, (2) firm market purchase actions, (3) demand side management (DSM) actions, (4) coal resource actions, and (5) transmission actions. A variety of action items have been completed and are noted below, while other action items will continue forward into the 2017 IRP process. The updated action items are summarized below, including changes to the action item itself and a status update on each action item.

1a. RPS Compliance. This action item was revised to reflect the changes in state RPS targets, REC banking provisions, and changes in federal tax credits. The Company determined that its current needs did not require the Company to issue a REC RFP in Washington. For the California RPS requirement, the Company issued a REC RFP, and the bids are currently being reviewed by the California Public Utilities Commission. The Company is deferring issuing RFPs for unbundled RECs to meet Oregon RPS requirements until states begin developing implementation plans for the EPA's draft 111(d) rule. The Division believes this is prudent,

inasmuch as the Company should make sure that pursuing an unbundled REC strategy is the least cost compliance option for ratepayers.

1b. REC Optimization. The Company issued a reverse RFP and will continue to issue reverse RFPs in 2016 to seek REC sales opportunities. The Company is on track with this action item.

1c. Oregon Solar Capacity Standard. As described above, this action item was deleted, as the Oregon Solar Capacity Standard was eliminated this year through legislation.

2a. Front Office Transactions. The Company acquired its 2015 and 2016 respective targets of short-term firm market purchases for the on-peak summer period. For 2017, the Company has not yet procured its short-term firm market purchases for the on-peak summer period. With the Company's heavy reliance on FOTs to meet the load and resource capacity deficits resulting from the upcoming coal plant shutdowns, the Division urges the Company to stay on track with this target and to report not only the status of market purchases, but the Company's contingency plan and analysis of the depth of the western wholesale market in the 2017 IRP. The Division reminds the Company of the Commission's directive in its 2015 IRP Order that relates to FOTs:

We direct PacifiCorp to continue to evaluate the depth of the western wholesale market, and to use sensitivity cases and acquisition path analysis, including development of a contingency plan, to monitor the feasibility of long-term reliance on FOTs to meet near-term load growth.⁵

3a. Class 1 DSM. The Company is on target, as on March 4, 2016, it filed with the Oregon Public Utilities Commission a request for a pilot Irrigation Load Control program. The proposed pilot program would begin in 2016 and targets 3 MW of controlled load.

⁵ Id. at p. 21.

3b. Class 2 DSM. The Company reports that in 2015 it acquired 589 GWh of Class 2 DSM, which is 7 percent above the Action Plan target in the 2015 IRP. The Company is on track to meet its target this year as well.

4a. Naughton Unit 3. This Action Item has been changed since the 2015 IRP. The Company refreshed its analysis of Regional Haze compliance alternatives for Naughton Unit 3, which reassessed gas conversion costs and alternatives that might allow Unit 3 to operate beyond year 2017. The updated Action Item reflects the refreshed analysis and currently shows that retiring Naughton Unit 3 at the end of 2017 is lower cost alternative than the assessed gas conversion approach. This analysis is summarized in Confidential Appendix B to the 2015 IRP Update. This action item states that the Company will continued to update its economic analysis of natural gas conversion in conjunction with the RFP process as new technologies emerge and as market inputs change.

4b. Dave Johnston Unit 3. There is no change to this Action Item, and the status itself is unchanged. As of the date of the IRP Update, the Company was still waiting for the response to appeals of EPA's final regional haze implementation plan.

4c. Wyodak. As in the previous Action Item, there is no change to this action item. The Company awaits results of the appeal of EPA's final regional haze implementation plan.

4d. Cholla Unit 4. The Company has met its target on this Action Item. In 2015, the permit applications and required studies to amend Cholla's Title V permit and the Arizona regional haze state implementation plan were submitted to the Arizona Department of Environmental Quality and its federal counterpart, the EPA. The EPA is currently preparing its review, public comment period, process, and final action in this regard.

5a. Energy Gateway Permitting. The Action Item is unchanged from the 2015 IRP Action Plan to the 2015 IRP Update Action Plan. It appears that progress is being made in the areas of permitting and funding.

Segment D (Gateway West, Windstar to Populus). The Bureau of Land Management (BLM) issued a Final Environmental Impact Statement (EIS) for the project on March 11, 2016, but deferred issuing its final Record of Decision (ROD) pending additional review of the portion of the project that extends to the Morley Nelson Snake River Birds of Prey Conservation Area in Idaho. The A draft supplemental EIS for the deferred portions of the project was released on March 11, 2016, shortly before the IRP Update was filed.⁶

Segment E (Gateway West, Populus to Hemingway). As described above, the BLM is performing additional analysis of portions of Segment E—the portion of the project that extends to the Morley Nelson Snake River Birds of Prey Conservation Area in Idaho. A draft supplemental EIS for the deferred portions of Segment E for the Gateway West project was issued on March 11, 2016. A final Record of Decision is anticipated in December 2016.⁷

Segment F (Gateway South (Aeolus to Mona). The BLM has been working since 2008 to develop a final EIS on the project. The Action Plan states that a possible final EIS will be issued in 2016. The Division notes that on May 12, 2016, shortly after the IRP Update was filed, the BLM released its final EIS and proposed land use plan amendments on the project.⁸

Segment H (Boardman to Hemingway) PacifiCorp and Idaho Power are jointly pursuing the project permitting phase of the project, and a Record of Decision is expected in 2016 followed by the Oregon Energy Facilities Siting Council's final order on the Site Certificate.

⁶ <http://gatewaywestproject.com/newsroom.aspx>

⁷ Id.

⁸ http://www.blm.gov/wy/st/en/info/news_room/2016/may/blm_takes_key_step.html.

The Company first announced its Gateway Energy Transmission Plan in 2007. While the IRP identifies the need for more transmission lines to deliver electricity to customers either from new generating plants or through improved access to existing resources in the region, Energy Gateway meets this need by providing access to both conventional and renewable energy sources in areas with diverse resources. From the time public outreach began in 2008, the difficulty in permitting, further assessments, and delays with the projected in-service, this portion of the transmission line will have taken nine years to complete. In spite of the delays, the Energy Gateway strategy is a fundamental part of the Company's long-term planning for existing and future customers, and the Division stresses the importance of transmission planning because of its long lead time.

5b. Wallula to McNary 230 kilovolt Transmission Line. The Company's goal for the project is to be in service by 2017. The Action Item reports on all of the permits, conditional use permits, rights-of-way, and interconnection plans that have been completed to date. It appears that this project should meet its 2017 in-service date goal. In addition, the Company is continuing permitting for the 30 mile Walla Walla to McNary transmission line, which was originally part of the Wallula to McNary project. The Company reports that it has almost obtained all of its private and federal rights-of-ways for this project.

ACTION ITEMS FROM THE COMMISSION'S 2015 IRP ORDER⁹

The Division outlined each of the requirements, suggestions, and directives from the Commission's 2015 IRP Order. The majority of these findings apply to the 2017 IRP, but there are three topics that the Commission requested be addressed at this time.¹⁰ The Division presents these issues, as well as its determination if the standard has been met below:

1. In its 2015 IRP Order, the Commission stated:

⁹Docket No. 15-035-04, Report and Order, dated January 8, 2016.

¹⁰ Id.