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Attorney for the Commission Staff

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

<b>IN THE MATTER OF THE FILING BY</b>	)	
<b>PACIFICORP DBA UTAH POWER &amp; LIGHT</b>	)	<b>CASE NO. PAC-E-03-2</b>
<b>COMPANY OF ITS 2003 ELECTRIC</b>	)	
<b>INTEGRATED RESOURCE PLAN (IRP).</b>	)	
	)	<b>COMMENTS OF THE</b>
	)	<b>COMMISSION STAFF</b>
	)	

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**COMES NOW** the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Filing and Notice of Comment Deadline issued on February 13, 2003, submits the following comments.

**BACKGROUND**

On January 27, 2003, PacifiCorp dba Utah Power & Light Company (PacifiCorp; Company) filed its 2003 Integrated Resource Plan (IRP) with the Idaho Public Utilities Commission (Commission). The Company's filing is pursuant to a biennial requirement established in Commission Order No. 22299, Case No. U-1500-165. PacifiCorp states that its IRP provides a framework and plan for the prudent future actions required to ensure PacifiCorp continues to provide reliable and least-cost electric service to its customers. The final IRP, it states, culminates a year-long collaboration with considerable public involvement from customer interest groups, regulatory staff, regulators and other stakeholders.

PacifiCorp forecasts average annual load on its system to grow by 2.2% in the east and 2.0% in the west. Given uncertainties of economic growth and other factors, this growth in PacifiCorp's load, the Company states, could vary between 1.4% and 3.4% system wide. At the same time, PacifiCorp notes, the resources available to the Company to serve this demand will diminish over time as supply contracts expire, hydro-electric generation facilities are subjected to relicensing conditions and thermal plants comply with more stringent emissions requirements.

The Company's IRP was developed against the backdrop of continuing market, regulatory and structural changes in the electric industry. These changes, the Company states, highlight the importance of understanding the risks and uncertainties inherent in resource planning. The IRP reveals that PacifiCorp has substantial new resource needs and will require an additional 4,000 MW of new resources (DSM, generation, and supply contracts) through 2013. Load growth, load shape growth, asset retirement and contract expirations cause the gap between demand and supply to grow over time.

Other key findings in the IRP include:

- The strongest resource strategy relies on a diverse portfolio of options, including strong components of renewables and demand-side management, but also natural gas- and coal-fired generating resources. A resource procurement process to pursue this diversified approach is described in the Action Plan.
- Possible paradigm shifts in the electric industry driven by federal regulatory requirements are significant uncertainties for PacifiCorp and its customers to manage in the next several years. These issues include (potentially favorable) changes in transmission operations, as well as the potential increased cost associated with PacifiCorp's existing resource assets, including complying with air emission standards and relicensing hydro electric facilities.
- Renewable resources are a good fit for PacifiCorp within the context of a diversified portfolio. The IRP proposes procuring renewable resources (primarily wind, and possibly geothermal) at a level shown to be cost

effective, given the assumptions used to evaluate the resource. The amount of renewables is also a level that would meet or exceed renewable portfolio standards that have been proposed in federal and state (not Idaho) legislation.

- Demand-side management (DSM) will continue to be an important and cost-effective program for PacifiCorp. A significant increase in programmatic measures is proposed, including a load control program to help mitigate growing capacity requirements.
- In addition to renewable resources and DSM, the study concludes that additional resources from thermal generation will also be required. The least-cost option is a combination of three natural gas-fired units and one coal unit to meet both growing energy and capacity requirements.
- The least-cost portfolio includes a coal baseload thermal unit in the east. Coal-fired generation may be particularly advantageous when procuring resources in the Rocky Mountains, the Company states, because coal is an abundant indigenous resource there. However, the long-term impact of atmospheric emissions is casting doubt on the viability of coal-fired generation. The IRP least-cost portfolio is dependent upon the impact of a number of these paradigm risks, including air emission standards and possible global warming measures. PacifiCorp believes it has adequately addressed these risks, based on its current understanding of them, and coal plants remain a low-cost option. The IRP action plan includes further work to develop and test the viability of a coal baseload thermal unit, including an ongoing assessment of the risks.

The Company's IRP proposes a significant procurement of new resources. The strategy outlined in the IRP includes the addition of about 4,000 MW of new capacity over the first 10 years of the 20-year IRP. The least-cost, risk-adjusted approach proposed is a diverse portfolio of

resources, including renewables, DSM and thermal baseload and peaking units. These additions include the following portfolio additions during the planning period:

- 1400 MW of renewable resources
- 450 MWa of DSM and 90 MW of direct load control
- 2100 MW of baseload capacity
- 1200 MW of peaking capacity
- 700 MW shaped resource contracts

A detailed summary of the selected resource portfolio is attached. The summary shows the resources to be acquired along with the amounts and timing of each. The summary is broken down into East resources – those to be located in Idaho, Utah or Wyoming, and West resources – those to be located in Oregon or Washington.

**Table D.1 Portfolio Capacity**  
This table itemizes incremental resources added by year for both East and West, for each of the portfolios.

Portfolio Summary (MW)		2004	2006	2008	2007	2008	2009	2010	2011	2012	2013	Total MW's
East	Diversified Portfolio 1											
	Thermal contract (installed capacity in MW)	0	0	25	25	25	0	25	25	25	25	175
	Class 1 DSM (load control - peak MW capability)	30	30	31								91
	Class 2 DSM (MWs added each year)	30	12	11	12	12	12	12	12	12	0	123
	Wind (East - installed capacity in MW)				200		200		200		120	720
	Super Peak Contract	225				-225						0
	Coal Base Load (Hunter 4)					575						575
	CCCT (Mona)									480		480
	CCCT (Gadsby Repower)						610				200	510
	Peaker East (Mona)										300	500
	Reserve Peakers (East)			200								500
	East Market (Short Term)	600										500
West	Thermal contract (installed capacity in MW)	0	0	25	25	25	0	25	25	25	25	175
	Class 2 DSM (MWs added each year)	5	2	2	2	2	2	2	2	2	0	22
	Wind (West - installed capacity in MW)			100		200		200	200	200		700
	Flat Contract (7X24)								200			200
	3-Year Flat Off-Peak	500			-500							0
	CCCT (Albany)				570							570
	Reserve Peakers (West)			230						230		460
	West Market (Short Term)	500										500
	Peaking Contract									100		100

The Action Plan details findings of resource need and specific implementation actions. The plan also outlines step-by-step decision processes by which proposed resources will be continually evaluated and procured. Going forward, PacifiCorp will implement the Action Plan, while also maintaining the flexibility to adjust to future changes and opportunities. The Action Plan, the Company states, will be revisited and refreshed no less frequently than annually.

For analytic purposes, the IRP assumes new resources are developed and owned by PacifiCorp. However, no decision has been made to invest in specific resources. The decision to own, build and invest in a new resource versus contracting with a third party would be made as part of the procurement process for each new resource addition, and on a case-by-case basis. A multi-state process (MSP) (Case No. PAC-E-02-3) is expected to provide clarity on interjurisdictional allocation of investment decisions and the degree of cost recovery risk held by PacifiCorp. The Company anticipates that the MSP will issue findings in the summer or fall of 2003. The MSP outcome will influence the activities and operations of PacifiCorp and may impact action plan implementation. The Company states that a significant procurement program and potential investment is required to maintain reliable electric service. It is critically important, the Company contends, that state regulators support this IRP and issue their acknowledgement of the Action Plan. This support coupled with a useful and durable MSP outcome, the Company states, is vital to PacifiCorp being able to resolve issues around recovery lag and achieve allowed rates of return, and is critical in ensuring PacifiCorp can continue to provide least-cost, reliable electric service to its customers.

## **ANALYSIS**

Staff participated in at least ten public input meetings held throughout the yearlong IRP development process. Staff also reviewed the draft IRP that was submitted prior to filing the final document and provided extensive comments to the Company. PacifiCorp has, to the extent it was able, responded to Staff's comments and revised the final IRP document accordingly. As a result, Staff's comments on the final document will be relatively brief and focus on whether the process followed meets the Commission's requirements and whether the end result of the IRP is reasonable.

The process employed by PacifiCorp in the development of this IRP was very thorough. In fact, Staff believes the analysis conducted by the Company is the most extensive ever by a

utility regulated by the Commission. PacifiCorp considered a broad array of potential new resources, including DSM, to meet future load requirements. The Company also performed a comprehensive risk analysis examining such factors as changes in gas and electric prices, changes in loads, variations in hydro conditions, and possible thermal outages. Additional risks that could not easily be quantified through numerical analysis, such as changes in air emissions requirements, hydro relicensing, Oregon's SB1149, MSP, RTOs, and possible renewable portfolio standards, were also considered. Staff is satisfied that the risk analysis performed by the Company encompassed all likely future risks and was comprehensive enough to insure that risk was fairly balanced against cost in selecting the preferred new resource portfolio.

The preferred resource portfolio selected in the IRP consists of a blend of thermal plants, gas-fired plants, renewables, load control programs and DSM. This blend of resource types was the natural result of the analysis, not due to a preconceived belief by the Company that a diverse mix of resource types would be preferable. Staff believes that this natural result is significant. Each of the types of new resources offers their own unique advantages, and in combination, creates the least-cost, least-risk set of resources.

For example, coal generation has the advantage that PacifiCorp currently owns or controls existing thermal sites with room for expansion and can make use of existing transmission corridors. The Company also has experience with building, owning and operating thermal facilities. However, the risks associated with the possible impact of future environmental legislation precludes over reliance on this resource to meet all needs.

Gas-fired generation is low cost, not highly capital intensive, quick to construct, and relatively easy to site, but is subject to extreme fuel cost volatility. For some applications, however, and with a wise fuel procurement strategy, gas-fired generation can fill a portion of the Company's need.

Renewables, specifically wind and perhaps geothermal to the extent it is available, offer price stability due to the absence of fuel costs and associated fuel price risk. However, wind resources, by themselves, cannot meet all of PacifiCorp's needs because they cannot be counted on to deliver capacity during all the hours when capacity will be needed. In addition, Staff is uncertain about how much new wind generation can be economically developed, particularly if production tax credits are not renewed, and whether PacifiCorp will be competing with other utilities for a limited resource.

DSM programs, while not comprising a large part of the portfolio, are nevertheless an important piece. The IRP demonstrates that PacifiCorp is serious about DSM and intends to pursue all DSM opportunities that are available at a reasonable cost. Load control, while also a relatively small part of the portfolio, is still important because it satisfies very short-term needs that are otherwise extremely expensive to meet.

While the IRP has determined the need for resources with considerable specificity and identified the desirable portfolio and timing for procurement, it has not identified specific resources to procure, or even determined a preference between asset ownership versus power purchase contracts. Staff believes this is appropriate at this stage. PacifiCorp states that these decisions will be made subsequently on a case-by-case basis with an evaluation of competing resource options. The Company intends to develop these options using a robust procurement process, including, when appropriate, competitive bidding with an effective request for proposal (RFP) process.

Whether RFPs are utilized for specific resource procurement decisions, PacifiCorp states, will depend upon the size, type and location of the resource being considered. A comparison of all competing alternatives, including contract purchase options, will be made before PacifiCorp makes a build decision. This comparison will consist of the identification of relevant alternative developers or purchase contract options through a solicitation process, and compared against the appropriate market. In instances where PacifiCorp feels a formal RFP process is warranted, due to specific geographic or other market-related conditions, one will be issued.

PacifiCorp has indicated to Staff its intent to release a series of four RFPs in the immediate future. The first, expected to be released in approximately 60 days, will be seeking bids for east side capacity resources. The second RFP, to be issued in approximately 90 days, will be seeking wind or other renewable resources, both on the east and the west side. A third RFP will be issued in about 120 days for west side capacity resources. Finally, in early 2004, an RFP will be issued seeking a base load unit in the east.

Staff agrees that it is appropriate to issue RFPs in the immediate future in order to be able to have new resources on line at the time they will be needed. However, the necessary lead-time varies considerably for many of the new resources identified in the IRP. Staff does not believe it is appropriate to seek new resources through RFPs any sooner than necessary. There is value in being able to defer decisions as long as possible so that planning uncertainties can be better



resolved in the meantime. Given the considerable risks and uncertainties PacifiCorp has identified in the IRP, the costs and viabilities of various resource alternatives are likely to change over time. PacifiCorp has stated its intent to revise and update its Action Plan at least annually; it should try to maintain as much flexibility in its resource acquisition efforts. The RFPs issued by the Company should not commit it to resource acquisition decisions any sooner than necessary and should allow the Company to maintain flexibility to change course as necessary in acquiring new resources.

PacifiCorp states that it intends to perform all new resource evaluations on the same basis and using the same analytical techniques. Staff recommends that if PacifiCorp conducts the evaluations, it enlist the aid of an independent third party to insure that the evaluations are fair and complete, and that any Company self-build options are compared on a non-discriminatory basis.

PacifiCorp has indicated that it intends to keep the Commission and Staff apprised of key resource activities, including progress on the Procurement Program. The Company anticipates providing Procurement Program status reports approximately every six months. Staff recommends that PacifiCorp also keep the Commission and Staff informed as to its activities and progress on any requests for proposals that are issued.

Staff is satisfied with the preferred portfolio selected in the IRP. However, Staff has some concern about whether the aggressive level of wind resource acquisition spelled out in the IRP can be sustained. Relying on wind generation to the degree proposed by PacifiCorp is unprecedented. Staff is aware of the level of wind development in the region in recent years and is encouraged by the valuable experience being gained by utilities, including PacifiCorp. If the Company cannot sustain the pace of development envisioned, however, it should have ample time to revise its plans given that the acquisition of wind resources is to be spread over the 10-year planning horizon. Despite Staff's concerns, the response to the upcoming RFPs will help to confirm the cost and availability of the resources to be acquired in accordance with the Action Plan.

PacifiCorp has designed its Action Plan based on a planning margin of 15%. This is the planning margin that would be required under FERC's Standard Market Design proposal (SMD). Obviously, building to meet a 15% planning margin will be more expensive. There remains uncertainty surrounding the planning margin requirements in the proposed SMD. However, it will take a number of years for PacifiCorp to increase its planning margin, even to 10%. This period will allow PacifiCorp time to modify its plans in concurrence with the possible future

requirements of SMD. Further study of an appropriate planning margin for PacifiCorp will continue and is an appropriate element of the Action Plan.

Staff is encouraged by PacifiCorp's commitment to more closely align its resource planning and its business planning. In the past, it frequently appeared that these two were not linked. Now, a Resource Planning function has been created and organized in the Commercial and Trading Department to ensure integration with PacifiCorp's resource procurement, trading and risk management functions.

Staff believes it is very important to recognize that integrated resource planning is an ongoing process. New plans are to be prepared and filed at two-year intervals. Consequently, this IRP represents PacifiCorp's best effort to plan according to what is known at this point in time. Staff fully expects that as conditions change and as new and better information becomes available, future IRPs will change accordingly. PacifiCorp acknowledges that the Action Plan is subject to change as new information becomes available or as circumstances change. In fact, the Company has expressed its intention to revisit and refresh the Action Plan no less frequently than annually. The reality of integrated resource planning is that for most utilities, particularly PacifiCorp, by the time one plan is submitted to the Commission for acknowledgement, it is almost time to begin another planning cycle. Thus, Staff advises that if any other party in this case objects to some portion of the IRP, it express its concerns and seek to influence the next IRP to be filed in 2005.

In Idaho, as in most states, the Commission "acknowledges" rather than "approves" a utility's IRP. Other states where PacifiCorp serves have similar IRP requirements and provisions for acknowledgement; however, "acknowledgement" may be viewed differently in some states than in others. Staff believes it may be helpful to explain what it believes is meant by acknowledgement in Idaho. The following policy on integrated resource planning, adopted by the Commission in Order No. 25260, Case No. GNR-E-93-3, may help shed light on what is meant by acknowledgement:

POLICIES ADDRESSING INTEGRATED RESOURCE PLANNING. Each electric utility regulated by the Idaho Public Utilities Commission with retail sales exceeding 500,000 kilowatt hours in a calendar year shall employ integrated resource planning. Each electric utility's integrated resource plan must be updated on a regular basis (no later than biennially), must provide an opportunity for public participation and comment, and must be implemented. This plan constitutes the base line against which the utility's performance will ordinarily be measured. The requirement for implementation of a plan does not mean that the plan must be followed without deviation. The

requirement of implementation of a plan means that an electric utility, having made an integrated resource plan to provide adequate and reliable service to its electric customers at the lowest system cost, may and should deviate from that plan when presented with responsible, reliable opportunities to further lower its planned system cost not anticipated or identified in new existing or earlier plans and not undermining the utility's reliability. In order to encourage prudent planning and prudent deviation from past planning when presented with opportunities for improving upon a plan, an electric utility's plan must be on file with the Commission and available for public inspection, but the filing of the plan does not constitute approval or disapproval of the plan having the force and effect of law, and the deviation from the plan would not constitute violation of the Commission's orders or rules. The prudence of a utility's plan and the utility's prudence in following or not following a plan are matters that may be considered in a general rate proceeding or other proceeding in which those issues have been noticed.

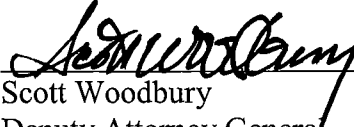
Staff has always viewed "acknowledgement" as being closely related to the process of integrated resource planning, rather than the result. By acknowledging a utility's IRP, Staff believes the Commission is endorsing the process the utility followed in developing the plan, but not necessarily any actions called for in the plan. The process requires that the utility forecast loads, identify and evaluate possible resource options, analyze risk, fairly weigh the benefits of both supply and demand side options, and finally, to develop and implement an action plan. The results of the plan, including the actions the utility proposes to take and the specific resources chosen to meet load, will be scrutinized in due course when the utility seeks cost recovery. Presumably, if the utility has followed a fair and thorough planning process, it will lead to a prudent, least cost, least risk result that can be supported by the Commission.

## **RECOMMENDATIONS**

Staff recommends that PacifiCorp's 2003 Integrated Resource Plan, including the Action Plan Findings of Need and the Action Plan Implementation Actions, be acknowledged by the Commission.

Respectfully submitted this

26<sup>th</sup> day of March 2003.

  
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Scott Woodbury  
Deputy Attorney General

Technical Staff: Rick Sterling

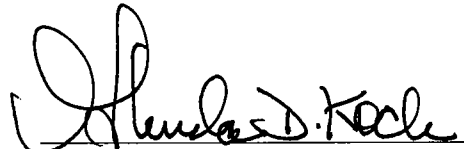
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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 26TH DAY OF MARCH 2003,  
SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE  
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