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September 13, 2007

Attention: Filing Center
Public Utility Commission of Oregon
550 Capitol Street NE, #215
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Re: *In the Matter of the PUBLIC UTILITY COMMISSION OF OREGON Staff's Investigation into the Treatment of CO₂ Risk in the Integrated Resource Process (IRP) Process*
PUC Docket No. UM1302
DOJ File No. 330-030-GN0300-07

Enclosed are an original and five copies of the Oregon Department of Energy's Reply Comments in the above-captioned matter for filing with the PUC today.

Sincerely,

Janet L. Prewitt
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Natural Resources Section

Enclosures
c: UM 1302 Service List

JLP:jrs/GENV3063

1 Although the Commission declined to address the wind/coal lifetime issue in UM 1208, it
2 did note at page 9 of Order 07-018 that:

3 *“Accordingly, we [the Commission] decline to resolve issues related to CO₂ risk at this*
4 *time. As we stated above, PacifiCorp has not satisfied the threshold requirement of RFP*
5 *alignment with its acknowledged IRP. Further, in Order No. 07-002 (Docket UM 1056),*
6 *we opened a proceeding to review treatment of CO₂ risk in IRPs. **Issues related to the***
expected costs, risks and uncertainties of coal resources, particularly if they are not
designed to capture and sequester CO₂ emissions, will be addressed in these forums.”

7 [Emphasis added].

8 ODOE believes this docket (referenced above in Order 07-018) is the appropriate forum for the
9 Commission to address the issue. The Commission should emphasize the relationship between
10 lifetime and CO₂ assumptions.

11 Recent wind acquisitions by PGE will be rate-based resources with a lease option up to
12 50 years. This approach may become the primary mode of wind acquisition by Oregon investor
13 owned utilities. Thus differential treatment of wind and coal resources should be based on
14 differences in technologies. No evidence has been presented in recent IRP's that demonstrates
15 that the physical life of a wind facility is less than a coal plant. However, if carbon dioxide
16 regulations are imposed the economic lifetime of the coal plant may become significantly shorter
17 than the economic lifetime of a wind plant. If so, wind facilities will have similar or longer
18 lifetimes than conventional coal plants. After 25 years of commercial experience, wind
19 technology is as reliable as conventional coal technology. Over the next 40 years, utilities will
20 face increasing stringent CO₂ regulations that will be make it difficult or impossible to operate
21 conventional coal plants as base-load resources.

22 The suggested edits to the OPUC staff draft below are not intended to resolve this issue.
23 The hope is the Commission will indicate its intention to focus on this issue in the
24 acknowledgement of specific integrated resource plans. The two other small edits are not
25 substantive.

1 **"Guideline 8: Environmental Costs"**
2 **[ODOE Edits to Staff draft of September 6]²**

- 3 a. SCENARIOS: The utility should construct a base-case scenario to reflect what it considers to
4 be the most likely regulatory compliance future for carbon dioxide (CO₂), nitrogen oxides,
5 sulfur oxides, and mercury emissions. The utility also should develop a broad array of
6 compliance scenarios ranging from the present CO₂ regulatory cost to the upper reaches of
7 credible proposals by governing bodies (*i.e.*, at least \$100 per ton **of CO₂**, as levelized in
8 2005 dollars). Each scenario should maintain logical consistency, to the extent practicable,
9 between CO₂ regulatory costs and other key inputs including, but not limited to, expected
10 interactive effects with fuel and electricity prices. Each scenario should include a time profile
11 of CO₂ compliance costs. The utility should identify whether it envisions those costs to be in
12 the form of taxes, a ban on certain types of resources, or CO₂ caps (with or without flexibility
13 mechanisms such as trading or a safety valve).
- 14 b. PREFERRED PORTFOLIO: The utility should identify, among reasonable alternatives, the
15 portfolio that it prefers in recognition of both its base-case scenario, the broad range of
16 potential regulatory compliance scenarios described above, other analyses conducted during
17 the course of the integrated resource planning cycle, and management discretion. The utility
18 should estimate the twenty-year (as a minimum) present value of revenue requirement
19 (PVRR) for each of the studied portfolios for several illustrative regulatory compliance
20 futures within the range of scenarios. End-effect considerations should be incorporated in the
21 analyses to allow for comparisons of portfolios containing resources with different economic
22 lives. **The utility should make assumptions regarding the lifetimes of different types of**
23 **resources that are consistent and reasonable among resources and with the CO₂**
24 **scenarios being considered, especially where the lifetimes extend beyond the time**
25 **horizon for the PVRR.** In addition, and if material, sensitivity analyses on a range of

26 ² New material is underlined in boldface type. Deleted material is bracketed.

1 reasonably possible regulatory futures for nitrogen oxides, sulfur oxides, and mercury should
2 be included to further substantiate the preferred portfolio selection.

3 c. TRIGGER POINT ANALYSIS AND ALTERNATIVE PORTFOLIOS: The utility should
4 identify at least one set of CO₂ compliance costs within the range of alternative regulatory
5 scenarios considered that would lead to, or “trigger,” a set of resources that is substantially
6 different from the preferred portfolio. The utility should fully develop an alternative portfolio
7 optimized for each of these “trigger point scenarios” and compare the portfolio’s expected
8 cost and risk performance to that of the initially preferred portfolio under the base-case
9 conditions and under each of the CO₂ compliance scenarios. For each of the trigger points
10 identified through the analyses, the utility should include an assessment that a CO₂ regulatory
11 future will be mandated that is equally or more stringent.

12 d. PORTFOLIO CO₂ RISK ADAPTABILITY: The utility should assess the cost and risks of
13 adapting the preferred portfolio to a scenario (or scenarios) where the utility must change
14 course unexpectedly due to a major change in the CO₂ compliance requirements. The utility
15 should describe the timing and magnitude of new CO₂ requirements that would elicit the
16 indicated portfolio modifications. The utility should compare the cost and risks of the
17 adapted preferred portfolio with those of an optimized alternative portfolio designed to be
18 more adaptable in the event of such a change in the CO₂ compliance requirements.

19 Comparative factors such as lead times for site acquisition, engineering, and construction
20 should be incorporated in the characterization of the alternative portfolio. The utility should
21 provide its assessment of such a CO₂ regulatory shift taking place.

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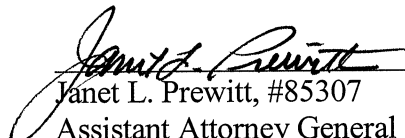
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1 e. OREGON COMPLIANCE PORTFOLIO: If none of the alternative portfolios is consistent
2 with Oregon energy policies (including state goals for reducing greenhouse gas emissions
3 [reductions]), the utility should construct an optimized portfolio that achieves that
4 consistency, present the cost and risk parameters, and compare them to those of the preferred
5 and alternative portfolios."
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7 DATED this 13th day of September 2007.

8 Respectfully submitted,

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14 Assistant Attorney General
15 Of Attorneys for Oregon Department of Energy
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UM 1302
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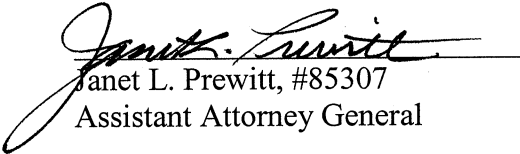
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CERTIFICATE OF SERVICE

I hereby certify that on the 13th day of September, 2007, I served the foregoing OREGON DEPARTMENT OF ENERGY'S REPLY COMMENTS, electronically upon, the persons named on the attached service list. All parties have waived paper service.

DATED: This 13th day of September, 2007.


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