PACIFIC POWER
A DIVISION OF PACIFICORP

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September 13, 2007

VIA ELECTRONIC FILING
AND OVERNIGHT DELIVERY

Oregon Public Utility Commission
550 Capitol Street NE, Suite 215
Salem, OR 97301-2551

Attention: Vikie Bailey-Goggins
Administrator, Regulatory Operations

Re: **Docket No. UM 1302 – Joint Utility Comments**
In the Matter of an Investigation Into the Treatment of CO_2 Risk in the Integrated Resource Planning (IRP) Process

Enclosed for filing by PacifiCorp dba, Pacific Power, Idaho Power and Portland General Electric is the Joint Utility Initial Comments on Proposed Guideline 8 Revisions in the above-captioned docket.

Informal questions on this matter may be directed to Joelle Steward at (503) 813-5542.

Sincerely,

Andrea L. Kelly /jm

Andrea L. Kelly
Vice President, Regulation

Enclosure
cc: Service List for UM 1302

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1302

In the Matter of: PUBLIC UTILITY COMMISSION OF OREGON Staff's Investigation Into the Treatment of CO_2 Risk in the Integrated Resource Plan (IRP) Process	Joint Utility Initial Comments on Proposed Guideline 8 Revisions

PacifiCorp, dba Pacific Power ("Pacific Power"), Portland General Electric Company ("PGE") and Idaho Power Company ("Idaho Power") (collectively "the Utilities") hereby submit these initial comments on Commission Staff's ("Staff") proposed revisions to Integrated Resource Plan ("IRP") Guideline 8: Environmental Costs ("Guideline 8"). The Oregon Public Utility Commission ("Commission") initially established guidelines for least cost planning, which is now known as integrated resource planning, in Docket No. UM 180, Order No. 89-507. The Commission developed guidelines for the treatment of external environmental costs, including carbon dioxide ("CO_2") in long-term resource planning in Docket No. UM 424, Order No. 93-695. In Docket No. UM 1056, the Commission revised the IRP guidelines in Order No. 07-002. Also in Order No. 07-002, the Commission initiated the instant proceeding to examine CO_2 risk modeling in IRPs. Parties filed initial comments on an agreed to set of issues on July 26, 2007. From those comments, Staff developed potential revisions to Guideline 8, which the parties discussed at workshops held on August 16, 2007 and August 30, 2007. Staff issued another draft of proposed revisions to Guideline 8 on September 6, 2007. The

Utilities appreciate the opportunity to provide comments and suggested edits to Guideline 8.

COMMENTS

The revisions to Guideline 8 as proposed by Staff significantly expand the analytical framework to be used when modeling environmental costs, particularly CO_2 risk costs, associated with resource planning. The current text of Guideline 8 reads:

> Utilities should include, in their base-case analyses, the regulatory compliance costs they expect for carbon dioxide (CO_2), nitrogen oxides, sulfur oxides, and mercury emissions. Utilities should analyze the range of potential CO_2 regulatory costs in Order 93-695, from zero to $40 (1990$). In addition, utilities should perform sensitivity analysis on a range of reasonably possible cost adders for nitrogen oxides, sulfur oxides, and mercury, if applicable.

The proposed Guideline 8 is divided into five sections, a through e, to address Scenarios, Preferred Portfolios, Trigger Point Analysis and Preferred Portfolios, Portfolio CO_2 Risk Adaptability, and Oregon Compliance Portfolio.

The Utilities propose three sets of changes to Staff's revised Guideline 8. First, the Utilities propose deleting the Preferred Portfolio subsection because the selection of a preferred portfolio is already addressed in the Commission's new IRP guidelines, specifically Guideline 1c. Also, the incorporation of risk and uncertainty into the planning process, including "costs to comply with any regulation of greenhouse gas emissions" is addressed in Guideline 1b. The Utilities propose adding the text regarding present value of revenue requirement ("PVRR") calculation, end effects, and sensitivity analysis for other pollutants to the Scenarios section.

Second, in the Trigger Point Analysis and Alternative Portfolios section, the Utilities propose replacing the text "under the base-case conditions and under each of the

CO_2 compliance scenarios" with "under the base case and alternative trigger point scenarios". The purpose of this modification is to clarify that the trigger point analysis should be limited to only those scenarios that lead to a substantive change in portfolio resources, *i.e.* the trigger point scenarios.

Third, in the Oregon Compliance Portfolio section, the Utilities propose language to make one correction and one clarification. The proposed language deletes the word "reducing" in the parenthetical phase "including state goals for reducing greenhouse gas emission reductions". The word "reducing" is redundant and could be misinterpreted. It is likely the original text contained a drafting error. Additionally, the Utilities propose adding the phrase "applicable to the electricity sector" within the first sentence and before the parentheses. This clarification is necessary because the Oregon goals for reducing greenhouse gas emissions as adopted within House Bill 3543 (2007) are economy-wide goals, encompassing numerous sectors, including transportation and industrial sources. House Bill 3543 does not specify what the electricity sector's share of the economy-wide emissions goals should be. The Utilities understand that this particular subject, and regulations to govern the electricity sector, are to be considered at a later date.

Finally, the Utilities propose minor edits throughout the proposed Guideline 8 revisions for clarification and to ensure straightforward analysis. Of particular importance is the elimination of the word "optimized". "Optimized" suggests something that simply does not exist with IRPs.

These proposed revisions are shown in a red-lined version of Staff's proposed Guideline 8, attached to these comments as Attachment A.

CONCLUSION

The Utilities respectfully request that the revisions described above be incorporated into Staff's proposed revised Integrated Resource Plan Guideline 8: Environmental Costs.

DATED this 13th day of September, 2007.

Respectfully submitted,

Andrea Kelly

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Vice President, Regulation
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Richard George
Assistant General Counsel
Portland General Electric

Lisa F. Rackner
Attorney for Idaho Power
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CONCLUSION

The Utilities respectfully request that the revisions described above be incorporated into Staff's proposed revised Integrated Resource Plan Guideline 8: Environmental Costs.

DATED this 13th day of September, 2007.

Respectfully submitted,

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ATTACHMENT A

Guideline 8: Environmental Costs

a. SCENARIOS: The utility should construct a base-case scenario to reflect what it considers to be the most likely regulatory compliance future for carbon dioxide (CO_2), nitrogen oxides, sulfur oxides, and mercury emissions. The utility also should develop ~~a broad array of~~ compliance scenarios ranging from the present CO_2 regulatory cost to the upper reaches of credible proposals by governing bodies ~~(*i.e.*, at least $100 per ton, as levelized in 2005 dollars)~~. Each scenario should maintain logical consistency, to the extent practicable, between CO_2 regulatory costs and other key inputs including, but not limited to, expected interactive effects with fuel and electricity prices. Each scenario should include a time profile of CO_2 compliance costs. The utility should identify whether it envisions those costs to be in the form of taxes, a ban on certain types of resources, or CO_2 caps (with or without flexibility mechanisms such as trading or a safety valve). The utility should estimate the twenty-year (as a minimum) present value of revenue requirement (PVRR) for each of the studied portfolios. End-effect considerations should be incorporated in the scenario analyses to allow for comparisons of portfolios containing resources with different economic lives. In addition, and if material, sensitivity analyses on a range of reasonably possible regulatory futures for nitrogen oxides, sulfur oxides, and mercury should be included as part of the portfolio analysis.

b. ~~PREFERRED PORTFOLIO: The utility should identify, among reasonable alternatives, the portfolio that it prefers in recognition of both its base-case scenario, the broad range of potential regulatory compliance scenarios described above, other analyses conducted during the course of the integrated resource planning cycle, and management discretion. The utility should estimate the twenty-year (as a minimum) present value of revenue requirement (PVRR) for each of the studied portfolios for several illustrative regulatory compliance futures within the range of scenarios. End-effect considerations should be incorporated in the analyses to allow for comparisons of portfolios containing resources with different economic lives. In addition, and if material, sensitivity analyses on a range of reasonably possible regulatory futures for nitrogen oxides, sulfur oxides, and mercury should be included to further substantiate the preferred portfolio selection.~~

~~c.~~ TRIGGER POINT ANALYSIS AND ALTERNATIVE PORTFOLIOS: The utility should identify at least one set of CO_2 compliance costs within the range of alternative regulatory scenarios considered that would lead to, or "trigger," a set of resources that is substantially different from the preferred portfolio. The utility should ~~fully~~ develop an alternative portfolio ~~optimized~~ for each of these "trigger point scenarios" and compare the portfolio's expected cost and risk performance to that of the ~~initially~~ preferred portfolio developed under the base case ~~and alternative trigger point scenarios~~. ~~under the base-case conditions and under each of the CO_2 compliance scenarios.~~ For ~~each of~~ the trigger points identified through the analyses, the utility should include an assessment that a CO_2 regulatory future will be mandated that is equally or more stringent.

c. PORTFOLIO CO_2 RISK ADAPTABILITY: The utility should assess the cost and risks of adapting the preferred portfolio to a scenario (or scenarios) where the utility must change course unexpectedly due to a major change in the CO_2 compliance requirements. The utility should describe the timing and magnitude of new CO_2 requirements that would elicit the indicated portfolio modifications. The utility should compare the cost and risks of the ~~adapted~~ preferred portfolio with those of an ~~optimized~~ alternative portfolio designed to be more adaptable in the event of such a change in the CO_2 compliance requirements. Comparative factors such as lead times for site acquisition, preliminary engineering, and construction time should be incorporated in the characterization of the alternative portfolio. ~~The utility should provide its assessment of such a CO_2 regulatory shift taking place.~~

~~e~~d. OREGON COMPLIANCE PORTFOLIO: The utility should construct a ~~If none of the alternative~~ portfolio~~s~~ that is consistent with Oregon energy policies applicable to the electricity sector (including state goals for ~~reducing~~ greenhouse gas emissions reductions)~~, the utility should construct an optimized portfolio that achieves that consistency~~, present the cost and risk parameters, and compare them to those of the preferred and alternative portfolios.

CERTIFICATE OF SERVICE

I hereby certify that on this 13th day of September, 2007, I caused to be served, via E-Mail and First Class Mail Delivery (to those parties who have not waived paper service) a true and correct copy of the Joint Utility Comments on Proposed Guideline 8 Revisions of PacifiCorp dba Pacific Power, Idaho Power and Portland General Electric in Docket No. UM 1302

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