

ORDER NO. 02-681 -

ENTERED OCT 07 2002

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

LC 30

In the Matter of)
)
PACIFICORP) ORDER
)
Resource and Market Planning Program)
(RAMPP-6))

DISPOSITION: DOCKET CLOSED; NO FURTHER ACTION REQUIRED

Introduction

In Order No. 89-507, the Commission established procedural and substantive requirements of least-cost planning (LCP) for all regulated energy utilities in Oregon. The goal of LCP is to assure an adequate and reliable supply of energy at the least cost to the utility and its customers consistent with the long-run public interest.

Procedurally, Order No. 89-507 requires regulated utilities to prepare least-cost plans every two years. It also requires involvement of the Commission and the public in the LCP process prior to resource decision-making. Substantively, Order No. 89-507 requires the utilities to evaluate all resources on a consistent and comparable basis and to consider uncertainty in resource decision-making. Order No. 89-507 also provides for the Commission's acknowledgment of plans that meet these procedural and substantive requirements.

RAMPP-6

On July 5, 2001, PacifiCorp filed its sixth least-cost plan, entitled Resource and Market Planning Program (RAMPP-6). However, because the study used various input assumptions that were finalized in May 2000, the results of RAMPP-6 do not reflect the current state of the electricity industry. As Staff notes in its report, which is attached as Appendix A, at least three significant events have occurred since the RAMPP-6 input assumptions were finalized. First, the wholesale markets for electricity and natural gas have exhibited unprecedented price volatility. Second, PacifiCorp has joined a coalition of utilities that have proposed the development of Regional Transmission Organization (RTO) West. Third,

PacifiCorp filed a Structural Realignment Proposal in each of its state jurisdictions (Docket UM 1001), which has since been replaced with the on-going Multi-State Process (Docket UM 1050).

These events are not reflected in the input assumptions used in RAMPP-6. As a result, the scenarios considered in RAMPP-6 do not address the future structure or performance of wholesale energy markets, the electric industry, or PacifiCorp itself. As PacifiCorp explains in its transmittal letter accompanying the filing of RAMPP-6, "[t]he current state of the industry is not encompassed in any of the scenarios analyzed in the study." PacifiCorp attributes this shortcoming to an incongruity between traditional least-cost planning and the increasingly competitive electricity industry. PacifiCorp further states:

PacifiCorp believes that integrated resource planning [(IRP)] is difficult, at best, under these circumstances. At worst, it can be misleading. As the electric utility industry evolves to a more competitive marketplace the assumptions of traditional IRP rules increasingly do not fit the new environment. The Company recommends that discussions continue on an ongoing basis between interested parties to determine the elements of the integrated resource planning process that still have value and which should be discarded. RAMPP-6, Evolution of IRP, pp. 17-18.¹

Due to these acknowledged deficiencies, Staff cannot conclude that RAMPP-6 constitutes a reasonable plan and, consequently, does not recommend the Commission acknowledge it. Staff also does not support continued Staff believes PacifiCorp should continue to focus its efforts on the company's next LCP filing, which is scheduled to be submitted in December 2002. Staff notes that PacifiCorp is currently spending significant time and effort to redesign its LCP process. In addition, Staff agrees with PacifiCorp that it is time to reconsider the fit between the traditional LCP process and a competitive electric industry. Staff notes that the Commission has opened docket UM 1056 to investigate LCP requirements.

FINDINGS

1. PacifiCorp is a public utility in Oregon, as defined by ORS 757.005, which provides electric service to or for the public.

¹ For this reason, PacificCorp filed a motion asking that this docket, LC 30, be consolidated with the company's next LCP docket, LC 31. Because our holding in this order effectively addresses PacificCorp's concerns, we need not address the motion and dismiss it.

2. Through no fault of the company, PacifiCorp's RAMPP-6 does not address the future structure or performance of wholesale energy markets, the electric industry, or PacifiCorp itself.

3. The Commission has opened Docket UM 1056 to investigate LCP requirements.

4. The Commission has opened Docket LC 31 to address PacifiCorp's next LCP filing, scheduled to be submitted in December 2002.

CONCLUSIONS

1. RAMPP-6 should not be acknowledged.

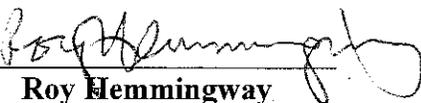
2. PacifiCorp is not out of compliance with any requirements of the LCP process adopted by the Commission in Order No. 89-507.

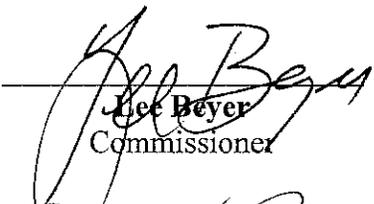
3. PacifiCorp should not continue any efforts to improve RAMPP-6, but should rather focus its efforts on its anticipated LCP filing scheduled to be filed in docket LC 31.

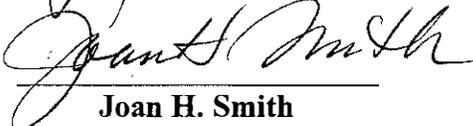
ORDER

IT IS ORDERED that the sixth Resource and Market Planning Program plan, filed by PacifiCorp on July 5, 2001, is not acknowledged. Docket LC 30 is hereby closed.

Made, entered, and effective OCT 07 2002


Roy Hemmingway
Chairman


Lee Beyer
Commissioner


Joan H. Smith
Commissioner



A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-014-0095. A copy of any such request must also be served on each party to the proceeding as provided by OAR 860-013-0070(2). A party may appeal this order to a court pursuant to applicable law.

ITEM NO. 1

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: September 17, 2002**

REGULAR X CONSENT EFFECTIVE DATE September 18, 2002

DATE: September 6, 2002

TO: John Savage through Lee Sparling and Jack Breen III *li* *JB*

FROM: Maury Galbraith *MSG*

SUBJECT: PACIFIC POWER & LIGHT: (Docket No. LC 30) Requests Commission acknowledgement of sixth Resource and Market Planning Program (RAMPP-6).

SUMMARY RECOMMENDATION:

Staff recommends that dockets LC 30 and LC 31 be consolidated.

DISCUSSION:

Least-Cost Planning Requirements

On April 20, 1989, pursuant to its authority under ORS 756.515, the Commission issued Order 89-507 establishing the procedural and substantive requirements of least-cost planning for all regulated energy utilities in Oregon. Procedurally, Order 89-507 requires regulated utilities to prepare least-cost plans every two years. It also requires involvement of the Commission and the public in the LCP process prior to resource decision-making. Substantively, Order 89-507 requires the utilities to evaluate all resources on a consistent and comparable basis and to consider uncertainty in resource decision-making. Order 89-507 sets the primary goal of LCP as the least cost to the utility and its ratepayers consistent with the long-run public interest. The Commission also determined that least-cost plans are to be consistent with the energy policy of the State of Oregon as expressed in ORS 469.010. Finally, Order 89-507 provides for the Commission's acknowledgment of plans that meet these procedural and substantive requirements.

The goal of LCP is to assure an adequate and reliable supply of energy at the least cost to the utility and its customers consistent with the long-run public interest. The result of the LCP process is the selection of that mix of options which yields the best combination of expected costs and variance of costs over the long run. Commission

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acknowledgment of a plan means only that the plan seems reasonable to the Commission at the time the acknowledgment is given. Favorable rate-making treatment is not guaranteed by acknowledgment of a plan. Consistency of resource investments with an LCP is a factor that the Commission will consider in judging the prudence of utility actions.

PacifiCorp's Sixth Resource and Market Planning Program (RAMPP-6)

PacifiCorp filed its sixth least-cost plan, RAMPP-6, on July 5, 2001. RAMPP-6 is the result of nearly three years of work by the company and its external advisory group. The results of RAMPP-6 are necessarily determined, or conditioned, by the input assumptions used in the study. The input assumptions for RAMPP-6 were finalized in May of 2000.

At least three significant events have occurred since the RAMPP-6 input assumptions were finalized. First, the wholesale markets for electricity and natural gas have exhibited unprecedented price volatility. Second, PacifiCorp has joined a coalition of utilities that have proposed the development of RTO West. Third, PacifiCorp filed a Structural Realignment Proposal in each of its state jurisdictions (OPUC Docket UM 1001), which has since been replaced with the on-going Multi-State Process. These events are not reflected in the input assumptions used in RAMPP-6. As a result, the scenarios considered in RAMPP-6 do not address the future structure, or performance, of wholesale energy markets, the electric industry, or PacifiCorp.

PacifiCorp seems to agree with this conclusion. In its July 3, 2001 transmittal letter accompanying the filing of RAMPP-6, the company states, "The current state of the industry is not encompassed in any of the scenarios analyzed in the study." PacifiCorp attributes this shortcoming to an incongruity between traditional least-cost planning and the increasingly competitive electricity industry. In the RAMPP-6 Executive Summary, PacifiCorp states:

The traditional model of IRP does not fit well with a competitive environment. As the company operates in an increasingly competitive environment, its planning will continue to evolve. The company proposes that this report RAMPP-6 become the basis for an ongoing analysis... The Company proposes that it host regularly scheduled and ad-hoc meetings with the RAMPP Advisory Group to both solicit and present scenarios based on the RAMPP optimization process. This approach has the advantage of being able to present analysis in real time, rather than waiting for the formal report on a two-year cycle. Ultimately this approach may lead to a restructured IRP process that includes more frequent scenario analysis building off of a base model. (Executive Summary, p. iii)

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In a section of RAMPP-6 titled *Evolution of IRP*, PacifiCorp states:

PacifiCorp believes that integrated resource planning is difficult, at best, under these circumstances. At worst, it can be misleading. As the electric utility industry evolves to a more competitive marketplace the assumptions of traditional IRP rules increasingly do not fit the new environment. The Company recommends that discussions continue on an ongoing basis between interested parties to determine the elements of the integrated resource planning process that still have value and which should be discarded. (*Evolution of IRP*, pp. 17-18)

The relationship between traditional LCP and a competitive electric industry was a consideration in 1996 when the Commission opened an investigation to review least-cost planning requirements (OPUC Order 96-336). The investigation was closed in 1997 after participants suggested that it was premature to change the Commission's least-cost planning requirements prior to the Oregon Legislatures' decision on electric industry restructuring (OPUC Order 97-378). Staff believes it is time to reconsider the fit between traditional LCP and a competitive electric industry. The Commission, at the July 23, 2002 regular public meeting, opened an investigation into LCP requirements (Docket UM 1056).

PacifiCorp's Seventh Resource and Market Planning Program (RAMPP-7)

On December 13, 2001, PacifiCorp held its first Resource Planning Advisory Group meeting for RAMPP-7¹. Subsequent Advisory Group meetings were held on February 5, March 22, May 7, June 18, and July 30, 2002. RAMPP-7 is to be filed with the Commission in December 2002. PacifiCorp is currently spending significant time and effort to redesign its least-cost planning process. PacifiCorp desires a faster, more interactive, least-cost planning process that satisfies the needs and constraints of each of its state jurisdictions and produces a durable long-term resource strategy that will guide its decision making. Staff supports PacifiCorp's efforts to make LCP a more effective tool.

¹ RAMPP-7 has been docketed as LC 31. A motion for protective order was granted on May 6, 2002 (OPUC Order No. 02-307).

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Staff Findings

1. The scenarios considered in PacifiCorp's RAMPP-6 do not address the future structure, or performance, of wholesale energy markets, the electric industry, or PacifiCorp.
2. The Commission has opened Docket UM 1056 to investigate LCP requirements.
3. PacifiCorp is scheduled to file RAMPP-7 in December 2002 and is currently spending significant time and effort to redesign its least-cost planning process.

The Commission's acknowledgment decision is to be based on whether or not RAMPP-6 seems reasonable at the time the acknowledgment is given. Based on its first finding, Staff cannot conclude that RAMPP-6 constitutes a reasonable plan. Therefore, Staff cannot recommend acknowledgment of RAMPP-6. Furthermore, based on its second and third findings, Staff cannot support continued efforts to improve RAMPP-6. Staff believes PacifiCorp should continue to focus its efforts on RAMPP-7 and UM 1056. One option available to the Commission is to not acknowledge RAMPP-6 and to close docket LC 30.

PacifiCorp's Proposal

It is Staff's understanding that PacifiCorp proposes to have the Commission consolidate dockets LC 30 (RAMPP-6) and LC 31 (RAMPP-7). The intended effect of the consolidation is to have RAMPP-7 supersede RAMPP-6. In the new combined docket, the sole decision before the Commission would be the acknowledgement of RAMPP-7. Therefore, a second option available to the Commission is to consolidate dockets LC 30 and LC 31 and to remain silent on the reasonableness of RAMPP-6. Staff supports the consolidation of LC 30 and LC 31 as an alternative to efforts to improve RAMPP-6 and as a means to maintaining a focus on RAMPP-7.

PROPOSED COMMISSION MOTION:

Dockets LC 30 and LC 31 be consolidated.

LC 30 PMM