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**Re: PacifiCorp's Opening Comments
Docket UM 1056**

Enclosed for filing please find PacifiCorp's Opening Comments in the above-referenced docket.
A copy of this filing was served on all parties to this proceeding as indicated in the attached
certificated of service.

Very truly yours,



Katherine A. McDowell

KAM:knp
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BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM 1056

In the Matter of an Investigation into
Integrated Resource Planning Requirements

**PACIFICORP'S
OPENING COMMENTS**

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I. INTRODUCTION

1
2 The Public Utility Commission of Oregon (the “Commission”) opened this docket on
3 August 8, 2002 to investigate into the need for revised least cost planning requirements.
4 Activity in the docket was subsequently suspended in late 2002 while parties worked on the
5 cost versus market issues in Docket UM 1066. On March 17, 2005, the Commission issued
6 Order No. 05-133 suspending UM 1066 and directing parties “to focus on cost, not market”
7 in UM 1056. Subsequently, activity in this docket resumed in earnest. The Commission
8 adopted the parties’ proposed issues list by ALJ Memorandum on June 6, 2005. The June 6
9 Memorandum is also significant in that it provides direction from the Commission to the
10 focus of the parties’ efforts on potential revisions to integrated resource planning
11 requirements. PacifiCorp has considered and incorporated the Commission’s policy-level
12 directional statements in formulating its Opening Comments.

13 A. Summary of PacifiCorp’s Position

14 PacifiCorp agrees with the statement of the Commission in the June 6 Memorandum
15 that the integrated resource planning (“IRP”) process “generally works.” Accordingly,
16 PacifiCorp opposes any significant changes to the Commission’s Order 89-507, which
17 originally established the Commission’s IRP requirements. Order 89-507 struck the
18 appropriate balance of outlining specific planning requirements, providing guidance to the
19 utility on the planning process and yet maintaining sufficient Commission flexibility to
20 respond to changing circumstances, updated technologies and evolving markets and
21 accomplish a wide range of regulatory objectives over the lifetime of the Order.

22 First and foremost, the Commission should strive to maintain the proven IRP formula
23 in Order 89-507 and preserve rather than restrict its flexibility. As discussed in greater detail
24 in response to specific proposals below, PacifiCorp respectfully submits that Staff’s Straw
25 Proposal for updated IRP “guidelines” appears to dictate specific analysis and considerations,
26

1 contrary to the spirit of Order 89-507. This type of prescriptive planning criteria should be
2 rejected.

3 Second, PacifiCorp notes with agreement the Commission’s statements in the June 6
4 Memorandum that the IRP should in general occur first, with the procurement process to
5 follow, and that the Commission prefers to acknowledge general, not specific resources in
6 the IRP. Together, these statements comport with PacifiCorp’s view of the IRP process.
7 Specifically, the IRP process is intended to serve a planning function, not a procurement
8 function.

9 While more discussion on the procurement process will be provided in PacifiCorp’s
10 UM 1182 opening comments, utilities are not able to dictate how the market will respond
11 during a procurement process. Instead, the IRP process can, and does very well, identify the
12 resource need and type, timing and preferred characteristics of available resources through
13 the use of proxy resources. If the IRP is to come before specific resources are acquired and if
14 it is for the purpose of Commission acknowledgment of general, not specific resources, then
15 the IRP process cannot be assigned the procurement role of predetermining the market
16 response.

17 **B. PacifiCorp’s Response to Issues List**

18 PacifiCorp’s comments are grouped into three areas. The first section addresses the
19 issues on the issues list that raise fundamental questions about Order 89-507, such as its
20 continued relevance, any updates to substantive and procedural guidelines and the form any
21 changes should take. The second area addresses other issues included in the Oregon Public
22 Utility Commission Staff (“Staff”) Straw Proposal for IRP Guidelines. PacifiCorp
23 appreciates Staff’s effort and thought in preparing its draft Straw Proposal and comments on
24 other issues. Staff requested that parties respond to the Straw Proposal in filing their opening
25 comments; accordingly, PacifiCorp discusses the issues adopted in the June 6 Memorandum
26 in the second section in the order presented by Staff’s Straw Proposal rather than as

1 presented in the Issues List. Finally, in the third section, PacifiCorp discusses the remaining
2 issues not addressed in the fundamental issues list or by Staff’s Straw Proposal. PacifiCorp
3 also notes that it is in general agreement with the overall perspective provided by Portland
4 General Electric in this matter. This overall view provides a useful broader picture in this
5 docket for Commission consideration while it reviews the comments on the various issues on
6 the issues list.

7 **1. Discussion of Fundamental Issues on Issues List**

8 **Issue 1: General questions about the purpose and implementation**
9 **of integrated resource planning:**

10 **Issue 1(a) How can the Commission ensure that its integrated**
11 **resource planning requirements are flexible enough to accommodate the**
12 **unique and changing circumstances of the utilities under its jurisdiction?**

13 **Related Staff Guideline: None; discussed in other issues.**

14 **Answer:** Order 89-507 has remained relevant through many energy industry changes
15 over the years because it contained broad objectives (substantive and procedural) for the IRP
16 planning process and permitted utilities and parties to demonstrate through various different
17 means compliance with those objectives. To ensure durability, any changes to the
18 Commission’s integrated resource planning requirements should follow this model and avoid
19 specific and prescriptive guidelines on analysis and other substantive requirements.
20 Otherwise, the Commission may need to frequently update and modify its guidelines and
21 may find itself much more enmeshed in technical details around planning analytics and
22 requirements.

23 PacifiCorp acknowledges that a flexible order means that the Commission may, as
24 circumstances require, order utilities to engage in certain different types of planning or
25 analysis for the next IRP planning cycle. PacifiCorp has had no objection to this evolving
26 process in past IRPs and believes it is a workable solution on a going forward basis. In its
27 comments in this Docket, Staff asserts that the Commission should provide “direction to the

1 utility in the acknowledgment order for each IRP if additional analyses or other actions are
2 required for the next planning cycle.” PacifiCorp does not object to this position to the
3 extent that it means continuation of the existing Commission practice of supplementing the
4 Order 89-507 requirements on an order-by-order basis over time. PacifiCorp concedes that
5 Order 89-507 contemplates that the requirements for planning may evolve over time and be
6 supplemented by subsequent orders. This is the inherent benefit of the flexibility of Order
7 89-507 recognized by the Commission at the time.

8 However, if Staff intends by this comment to argue, as it did in PacifiCorp’s most
9 recent IRP process, LC 39, that the Commission should let new requirements for planning in
10 future IRP cycles affect the Commission’s determination on the plan then-pending before the
11 Commission, PacifiCorp respectfully disagrees that this is an appropriate adjustment to IRP
12 planning requirements on a going-forward basis.

13 While the analysis process can and should evolve over time, the consideration and
14 determination of what is a reasonable plan at this time should not be dependent on that
15 further analysis. Instead, the Commission’s Order 89-507 contemplates that the Commission
16 will look to the analysis and information available in this IRP cycle from all parties and
17 determine if the plan “seems reasonable.” (Order 89-507; “Acknowledgment of a plan means
18 only that the plan *seems reasonable* to the Commission *at the time the acknowledgment is*
19 *given*.” (Emphasis added.)) Conditioning acknowledgment of a current plan on analysis to
20 be performed on a future plan contorts the definition of acknowledgment.

21 **Issue 1(b) Given the changes in the utility industry, what are the**
22 **purposes and objectives of integrated resource planning?**

23 **Related Staff Guideline: None; discussed in other issues.**

24 The goal of IRP is for the utility to select a plan or resource portfolio for meeting the
25 utility’s load, which results in the optimal mix of resources providing the best combination of
26 expected costs and variance of associated risks and uncertainties. This goal has remained

1 essentially unchanged from that stated in Order 89-507 in spite of significant changes in the
2 utility industry. These changes include new, more efficient technologies and a maturing
3 competitive market very much affected by the Western energy crisis from 2000 and 2001.
4 Instead of the utility building all new resources or entering into bilateral transactions with
5 only other utilities, there are more sources for the acquisition of additional energy and
6 demand-side measures to manage growing need.

7 While these changes have a significant impact on how resources are acquired, they do
8 not significantly impact how resources should be planned for. Likewise, while some retail
9 customers have the choice to take service from alternative electricity service suppliers,
10 utilities must currently continue to plan for these customers. While this makes planning
11 more complicated, it does not significantly alter the need for or requirements of planning.

12 Because the ultimate goal of IRP has not changed significantly from the original
13 Order 89-507, PacifiCorp submits that the overall substantive and procedural objectives of
14 the IRP do not need significant changes to ensure a meaningful IRP process for Oregon
15 utilities. PacifiCorp proposes the following changes to the four substantive elements
16 articulated by the Commission in 89-507:

- 17 1. All resources must be evaluated on a consistent and comparable basis.
- 18 2. Uncertainty and risk must be considered.
- 19 3. The primary goal must be the selection of a portfolio of resources that is
20 expected to yield the best combination of expected costs and variance of associated risks and
21 uncertainties for the utility and its ratepayers. ~~least cost to the utility and its ratepayers~~
22 ~~consistent with the long-run public interest.~~
- 23 4. The plan must be consistent with the long-run public interest as expressed in
24 state of Oregon and federal energy policies. ~~The plan must be consistent with the energy~~
25 ~~policy of the state of Oregon as expressed in ORS 469.010.~~

26

1 PacifiCorp will discuss the reasons for the suggested changes to the substantive
2 requirements in the following section which addresses Staff's proposed changes to those
3 requirements.

4 **Issue 2(a): What should be the planning horizon?**

5 **Issue 3: How should integrated resource plan measure and consider**
6 **the cost-stochastic risk tradeoff between candidate resource portfolios?**
7 **How should the utilities evaluate and compare resource portfolios**
8 **comprised of resources of different fuel types and technologies and**
9 **different durations?**

10 **Issue 4(a): What principles and metrics should the utilities use to**
11 **weigh other types of risks, e.g., the risks associated with owned resources**
12 **vs. purchased resources?**

13 **Issue 5: Should the Commission modify, delete or add substantive**
14 **requirements for integrated resource plans, e.g., should the Commission**
15 **consider whether a resource plan is in the long-term public interest and**
16 **whether the plan is consistent with the energy policy of the state of**
17 **Oregon as expressed in ORS 469.010, as currently required in Order 89-**
18 **507? How should the utility assess whether its integrated resource plan is**
19 **in the long-term public interest and is consistent with the state's energy**
20 **policy?**

21 **Related Staff Guideline: 1.**

22 **Answer:** PacifiCorp agrees with Staff's recommendation to keep the first substantive
23 requirement the same as in the original order (89-507), and to modify requirements 3 and 4.

24 However, PacifiCorp believes that a clarifying change to the substantive requirement 2 is
25 required and suggests a different modification to requirement 3 as discussed below.

26 PacifiCorp agrees with Staff's suggested modification to substantive requirement 4; however,
27 PacifiCorp suggests slightly different language merely as a grammatical, not substantive
28 change to Staff's concept. While PacifiCorp appreciates Staff's attempt to incorporate
29 language on how each utility should meet the requirements, PacifiCorp has concerns with
30 some of Staff's proposed additions.

31 As a general matter, PacifiCorp does not agree that the level of detail included by
32 Staff under each objective is appropriate in a statement about a guideline or IRP objective. It

1 is through the work of the parties, Staff and the utility over time utilizing evolving analytical
2 tools that the utility demonstrates that it has met each of the objectives. Being too
3 prescriptive about the high-level guidelines is therefore inappropriate. Instead, to the extent
4 the Commission believes the specific types of analysis are relevant to the IRP process, they
5 should be included as planning conventions, compliance with which is aspirational if
6 appropriate; however, the utility should be free to show that some other analytical tool makes
7 better sense given the purpose of the IRP. The comments below address each of the four
8 substantive requirements in order.

9 **a. Substantive Requirements**

10 **1. All resources must be evaluated on a consistent and comparable basis.**

11 In Substantive Requirement 1, Staff recommends language that suggests that utilities
12 should compare resource durations as part of the IRP. PacifiCorp submits that the
13 procurement process is the appropriate place to determine resource duration, not the IRP.
14 The procurement process determines whether a market exists for resources of different
15 contract lengths. Since the IRP models proxy resources to meet the load and resource
16 balance, it would be inappropriate for the IRP to presume specific durations of these proxy
17 resources outside a procurement process.

18 As part of Substantive Requirement 1, Staff recommends adding the requirement that
19 the “real after-tax marginal weighted-average cost of capital should be used to discount all
20 future resource costs.” PacifiCorp currently uses the after-tax marginal weighted-average
21 cost of capital (WACC) rate to discount expected future resource costs. The “real” after-tax
22 marginal WACC rate is used to calculate a levelized payment from the present value of the
23 nominal revenue requirements—hence the term “real levelized.” Because this levelized
24 payment is escalated each year by the rate of inflation, it is appropriate to use the after-tax
25 marginal WACC rate to discount future costs (as opposed to the real after-tax marginal
26 WACC rate). Using this methodology, the present value of the escalated real levelized

1 revenue requirements is equal to the present value of the nominal revenue requirements.
2 PacifiCorp believes Staff’s recommendation on this issue is mathematically incorrect.
3 Moreover, this level of detail which is very prescriptive is inappropriate from the perspective
4 of setting Commission policy and guidelines.

5 Staff also recommends that “utilities should analyze how their preferred portfolio
6 would change over a range of reasonable discount rates.” While this analysis is not difficult,
7 PacifiCorp questions the value of the requirement. First, the WACC is based on PacifiCorp’s
8 capital structure, which is typically not very volatile. Second, running portfolios with
9 different inflation rates (the second component of the rate—the first being capital structure)
10 is typically not necessary in a stable inflation environment.

11 **2. Uncertainty and risk must be considered.**

12 It is PacifiCorp’s opinion that this requirement should be updated to include an
13 evaluation of both uncertainty and risk. Therefore PacifiCorp proposes the updated
14 requirement be modified as indicated above.

15 **3. The primary goal must be the selection of a portfolio of resources that is**
16 **expected to yield the best combination of expected costs and variance of associated risks**
17 **and uncertainties for the utility and its ratepayers.** ~~least cost to the utility and its~~
18 ~~ratepayers consistent with the long-run public interest.~~

19 In Substantive Requirement 3, Staff identifies the expectation of what the utility
20 should include in its current and estimated future costs for long-lived resources, then
21 proceeds to list examples of these long-lived assets. PacifiCorp assumes that Staff is
22 speaking to the gas utilities when it indicates that gas storage facilities and pipelines should
23 be analyzed as part of this requirement, and would suggest adding a footnote on this
24 requirement to reflect this clarification.

25 In the same requirement referenced above, Staff indicates that short-term power
26 purchases should be analyzed. As was discussed in PacifiCorp’s comments under

1 Substantive Requirement 1, PacifiCorp does not believe that the evaluation of the duration of
2 a contract is appropriate for new resources evaluations in an IRP and therefore would
3 recommend removal of this asset type.

4 **4. The plan must be consistent with the long-run public interest as**
5 **expressed in state of Oregon and federal energy policies. The plan must be consistent**
6 **with the energy policy of the state of Oregon as expressed in ORS 469.010.**

7 PacifiCorp agrees with Staff's recommended change in concept to this substantive
8 requirement and understands it to mean that the IRP should address and evaluate (where
9 appropriate) relevant state or federal specific policies or guidelines as part of its plan.

10 PacifiCorp's suggested language simply makes minor grammatical changes not intended to
11 alter the substantive meaning.

12 **Procedural Requirements**
13 **Issue: None.**
14 **Related Staff Guideline: 2.**

15 With respect to the procedural requirements of IRP, Staff's proposal maintains the
16 public participation, sharing of information with measures for protection of confidential
17 information and interim report and draft report requirements. PacifiCorp agrees that these
18 were the key procedural requirements from Order 89-507 and they should continue to apply
19 to the IRP process going forward. PacifiCorp also agrees with the deletion of the procedural
20 requirements Staff has excluded. These requirements appear to have been intended to
21 address the first few cycles of utility planning and are no longer needed.

22 These changes are also consistent with the Commission's statement in the June 3
23 Memorandum, that it wished the IRP process to "remain outside the contested case process."
24 PacifiCorp agrees. PacifiCorp also agrees that Staff's proposed modifications to the
25 Procedural Requirements could be adopted while maintaining the current process.

26 Accordingly, with one exception, PacifiCorp has no objection to Staff's proposed
27 changes to the procedural requirements as outlined in the second issue in Staff's Straw

1 Proposal. Staff deleted the final sentence of the first procedural requirement related to the
2 process for dealing with disputes on information requests. PacifiCorp believes that it is in the
3 best interests of the parties for this dispute-resolution process to be clear to all parties and
4 therefore believes that this sentence, or something substantially comparable to it, should
5 remain under the procedural requirements section of the Commission’s updated order.

6 **Issue 6: What data should be treated confidentially in integrated**
7 **resource planning?**

8 **Related Staff Guideline: Included in 2.**

9 **Answer:** It is not possible to anticipate and identify all possible information or data
10 for which the utility may seek confidential treatment in an IRP. Therefore, a more practical
11 way to approach this issue is to put in place a workable process for dealing with such
12 confidential requests.

13 PacifiCorp believes that it conducts a very open planning process, making most of its
14 relevant data available to parties on a non-confidential basis. Notwithstanding this open
15 process, at times, PacifiCorp must seek to protect some confidential information. When that
16 need arises, PacifiCorp recommends that the Commission utilize the protective order process
17 currently in use in other more formal dockets. That process is well understood and
18 developed.

19 **Plan Filing, Review and Update Timing**

20 **Issue 2(b): How often should integrated resource plans be filed?**

21 **Issue 2(c): How often should utilities update actions plans?**

22 **Issue 2(d): What is the appropriate time period for completing the**
23 **integrated resource planning process?**

24 **Related Staff Guideline: 3.**

25 **Answer:** In general, PacifiCorp is in agreement with the majority of Staff’s proposed
26 requirements in this section. Staff proposes that the utility “must submit” an update to its

1 Action Plan on an annual basis. PacifiCorp understands that the Commission also has stated
2 its preference for annual action plan updates in an informal, but meaningful process.
3 PacifiCorp’s suggested change to this proposed requirement is a request that the Commission
4 make available a waiver process for the utility during times when there is no material new
5 information to report. To this end, PacifiCorp recommends that Staff include the same
6 waiver provisions for the mandatory update filing as it does for the integrated resource plan
7 filing. Under this proposal, the utility could seek a waiver from the Commission and the
8 Commission and the stakeholders could be spared the time and expense of an unnecessary
9 update process.

10 PacifiCorp also takes issue with Staff’s proposal that the Commission must provide
11 direction in its acknowledgment for additional analyses that should be conducted in future
12 planning cycles and until such analysis is done, acknowledgment of the current plan is
13 withheld. This issue is addressed further in the discussion under Issue 1(a) above.

14 **Elements of the Plan**

15 **Issue: None.**

15 **Related Staff Guideline: 4.**

16 With the exception of the comments previously made regarding PacifiCorp’s position
17 on modeling contract duration as part of IRP analysis and the clarification discussed below,
18 PacifiCorp is comfortable with Staff’s proposed elements. PacifiCorp reiterates the caveat
19 noted above, which is that the Commission should make clear that these are planning
20 conventions subject to change over time as new modeling techniques and analytical tools
21 emerge and that the utility is free to explain why a new or different model or tool serves the
22 overall substantive objectives better.

23 With regards to energy efficiency for the following proposed element, “Identification
24 and estimated costs of all ...taking into account anticipated advances in technology”,
25 (emphasis added), PacifiCorp believes that its base case load forecast takes into account the
26 reasonable improvements in efficiency due to advancements in end-use technologies and

1 emerging codes. It would be challenging to give technology advancements any more weight
2 in our modeling given our limited control over energy policy and enforcement of codes,
3 standards and building practices.

4 **Implementation of IRP Requirements**

5 **Issue 7: Should the integrated resource planning procedures and**
6 **requirements established in this docket be implemented as an Oregon**
7 **Administrative Rule?**

7 **Related Staff Guideline: None, discussed in other issues.**

8 **Answer:** PacifiCorp submits that having the Commission’s IRP planning
9 requirements in Commission orders has worked well in the past and there is no compelling
10 reason at this point to adopt these IRP requirements as rules. Commission orders have
11 similar authority to administrative rules yet provide more flexibility to respond to changes as
12 necessary. Moreover, having guidelines in Commission orders allows the Commission to
13 more readily respond to utility-specific planning issues and order utility-specific analysis on
14 a case-by-case basis as required.

15 **2. Other Issues in Staff’s Straw Proposal**

16 As a general comment, the remaining items in Staff’s Straw Proposal are additional
17 requirements that were not contemplated in the original IRP order. These additions are a
18 result of the ‘issues list’ parties discussed at many of the workshops. PacifiCorp is unclear
19 how these additional items fit into the framework of the IRP guidelines, and is concerned that
20 some of these additions may not be appropriate as IRP guidelines. Specifically, rather than
21 discussing these simply as issues for Commission determination, Staff instead proposes
22 guideline language on each of the following issues in this section. These guidelines do not
23 clearly fall into the substantive, procedural, timing or other plan element sections discussed
24 above and originally included in the Commission’s order. For the reasons discussed below,
25 PacifiCorp recommends that most of these recommended Staff guidelines be rejected as
26 unnecessary, duplicative or burdensome.

1 **Issue 1(c): How should the Commission review utility implementation**
2 **of integrated resource plans?**

3 **Issue 16: Should IRPs incorporate competitive bidding results, or**
4 **should the Commission acknowledge the IRP before the utility conducts**
5 **RFPs for resources identified in the action plan?**

5 **Related Staff Guideline: 15.**

6 **Answer:** PacifiCorp generally agrees with the Commission’s statement in the June 6
7 Memorandum that the IRP should occur first, with the RFPs (or other procurement processes
8 or actions) to follow. PacifiCorp does note, however, there may be occasions when the
9 utility needs to begin a procurement process prior to IRP acknowledgment either because of
10 anticipated needs from a prior IRP, unforeseen changes or opportunities or because of an
11 unexpected delay in the IRP process. If a Commission approved RFP is involved in any such
12 process, the utility should explain in its draft RFP filing the reasons and need for the RFP at
13 that time. The Commission can review those reasons in that draft RFP filing docket. Any
14 Commission guideline on this issue should not preclude utility procurement actions in
15 advance of IRP acknowledgment.

16 PacifiCorp does not agree with Staff’s proposal to require utilities to identify in their
17 actions plans their acquisition strategy for each resource, including whether they intend to
18 use competitive bidding and if so, if they intend to have a self-build or build, own, transfer
19 option. This proposal reveals a fundamental misunderstanding of the differences between
20 planning and procurement.

21 PacifiCorp does not believe it is appropriate for the Commission to adopt a generic
22 statement about planned procurement processes in the IRP. Instead, under current
23 Commission practice, the utilities must file a draft RFP with the Commission that discusses
24 whether or not there will be a self-build option included in a Commission-approved RFP.
25 That docket is the appropriate forum for review of the structure of Commission-approved
26 RFPs. Finally, the parties to Docket UM 1182 are currently discussing certain more specific

1 guidelines and exemptions for the use of competitive bidding in Oregon. The Commission
2 should await the benefit of that discussion and deal with procurement issues in that docket.

3 **Issue 1(d): How do the Commission’s ratemaking policies and**
4 **practices affect resource evaluation and selection? Should IRPs address**
5 **whether changes to ratemaking policy could improve the outcome of**
6 **resource planning?**

7 **Issue 22: Should utilities assume a specific ratemaking treatment**
8 **when evaluating alternative resource additions, e.g., including only the**
9 **intrinsic value of capacity contracts in rates versus including the real**
10 **option value (i.e., both the intrinsic and extrinsic value) of capacity**
11 **contracts in rates?**

12 **9 Related Staff Guideline: 12.**

13 **Answer:** PacifiCorp agrees with Staff’s proposed concept. However,
14 PacifiCorp does not believe that Staff has demonstrated any reason why this concept needs to
15 be embodied in a guideline in an IRP order. Rather, Staff’s concept discusses how incentives
16 and any other proposed changes to ratemaking policies would be made outside of the IRP
17 process. To the extent that parties or the utility believes any impediments exist, PacifiCorp
18 believes that these issues should be addressed in those other types of proceedings.

19 **Issue 8: For multi-state utilities: Should integrated resource**
20 **planning be conducted to optimize Oregon or system costs? How should**
21 **integrated resource planning reconcile different planning rules or**
22 **standards in different jurisdictions? How should integrated resource**
23 **plans address different state or regional resource preferences?**

24 **19 Related Staff Guideline: 11.**

25 **Answer:** PacifiCorp agrees with Staff’s proposed guideline. PacifiCorp
26 operates its system on an integrated basis and state specific planning is not practical and
could lead to sub-optimal results. PacifiCorp agrees that it could include in its IRP a
discussion of whether any state-mandated (e.g., legislative or rule-based) objectives require
any deviation from the preferred portfolio.

1 **Issue 9: Should the Commission acknowledge generic or specific**
2 **resource actions? For example, should the Commission acknowledge a**
3 **generating plant of a certain design and at a specific utility-owned**
4 **location?**

4 **Related Staff Guideline: 5.**

5 **Answer:** It appears that Staff’s discussion of Issue 9 (“Item 5”) is duplicative with
6 the following element in Staff’s Straw Proposal “Construction of a representative set of
7 resource portfolios to test various fuel types, technologies, lead times, in-service dates,
8 durations and locations.” Therefore, PacifiCorp would recommend eliminating this
9 requirement. If the Commission chooses to maintain this requirement, PacifiCorp reiterates
10 the comments discussed above under Issue 3.

11 **Issue 11(a): How should transmission and distribution**
12 **investments/costs and opportunities be incorporated into integrated**
13 **resource planning?**

13 **Related Staff Guideline: 6.**

14 **Answer:** PacifiCorp cannot capture the potential savings related to the distribution
15 system in an IRP, because the IRP is a system-wide planning function at the transmission
16 level. Distribution planning and deferrals associated with the distribution system are based on
17 specific projects and their locations. It is not possible to predict which customers in which
18 locations will choose to pursue certain activities (*e.g.*, DSM, distributed generation, *etc.*) in
19 order to forecast which, if any, specific distribution upgrades can reliably be deferred.
20 Applying a global value for deferral of a distribution investment is not appropriate since the
21 expected value may never be captured due to the diffused nature of customer participation
22 and the potential impacts to other customers in the immediate vicinity. Moreover, it would
23 be difficult and cumbersome for PacifiCorp to include distribution in analyzing each
24 portfolio.

25

26

1 **Issue 13: How should cost-effective conservation be analyzed and**
2 **included in resource planning? Should a conservation potential study be**
3 **conducted and, if so, how?**

3 **Related Staff Guideline: 7.**

4 **Answer:** PacifiCorp submits that this requirement is redundant with the Staff’s
5 proposed requirement in Substantive Requirement 1 and therefore should be eliminated. As
6 PacifiCorp commented on Substantive Requirement 1, it believes that all resources should be
7 evaluated as closely as possible to their expected, actual physical behavior. For example,
8 energy efficiency resources affect the future load forecast. Dispatchable load control
9 resources are more flexible and can resemble the behavior of a supply side resource, but may
10 have a customer convenience component, or other limitations, to consider.

11 PacifiCorp also believes that Staff’s requirement that conservation resources be
12 evaluated under all possible futures may not be appropriate and may be too prescriptive. For
13 the Company’s historical resource plans through RAMPP 6, supply curves or “bundles” of
14 DSM programs were modeled as potential resource options (for what we now call “Class 2”
15 resources). As part of the 2003 IRP process, several parties encouraged PacifiCorp to
16 improve its modeling of DSM and proposed that the Company adopt the “decrement
17 approach” as documented by the Tellus Institute. The Company did adopt this new approach
18 for both the 2003 and 2004 IRPs.

19 The Company is always open to improving DSM analysis; however, in consideration
20 of the multi-state agreement to the decrement approach and the state-specific nature of DSM
21 expenses, consultation with all parties needs to be considered before being prescriptive
22 regarding the DSM analysis approach on a system basis. Establishing the type of analysis in
23 guidelines is therefore not appropriate. Since the IRP is intended to plan for the system, and
24 not any one state, a collaborative approach to determine analysis methods should continue to
25 be used in each IRP.

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1 Regarding the recommended guideline to periodically conduct conservation potential
2 studies, it is industry knowledge that these types of studies (conducted at a usable level of
3 detail) are quite expensive and market characteristics are typically not dynamic from year to
4 year. Suggesting that market potential studies be done more often than every 5-7 years
5 would result in little change in results and unnecessary expense. Also, since DSM costs are
6 assigned by state, each state will need to decide the frequency at which their customers
7 would be willing to pay for this information. For this reason, we recommend removing this
8 requirement as a guideline for resource planning.

9 PacifiCorp currently incorporates the Energy Trust of Oregon's (ETO's) DSM
10 projections into the load forecast for Oregon. It is PacifiCorp's view that joint planning work
11 with the ETO is an implementation issue, not appropriate for inclusion as a planning
12 guideline.

13 **Issue 14: How should demand response be explicitly included in**
14 **integrated resource planning on par with other options for meeting**
 energy and capacity needs?

15 **Related Staff Guideline: 8.**

16 **Answer:** While in the future, time-based prices may become a more compelling
17 driver in managing customer usage, Company experience with such pricing to date (*e.g.*,
18 Energy Exchange, TOU rates, inverted rates, etc.) is that it has produced less than consistent
19 and compelling results. As such, it would be difficult, under any assumptions, to factor it
20 into the broader resource planning process.

21 For example, the Company has experienced inconsistent and unpredictable load
22 reduction due to price offers in the Energy Exchange program. Conducting an analysis of
23 historical Energy Exchange costs from 2001 when prices were at their highest may result in
24 some price elasticity relationship during extreme market conditions. However, any
25 consistent results, if found, would be at prices well above currently forecasted market prices.

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1 The IRP plans resources to fill capacity needs using then-current forecasts. Energy Exchange
2 is a non-firm, tactical resource that intermittently fills short-term needs.

3 **Issue 15: Should the Commission update the type of CO₂ analysis**
4 **required by Order No. 93-695, including the cost adder values? Should**
5 **the Commission update other types of environmental adders required for**
risk analysis? Should utilities be required to assign an imputed cost for
CO₂ in IRPs?

6 **Related Staff Guideline: 9.**

7 **Answer:** PacifiCorp agrees with Staff’s comment that the carbon dioxide (CO₂)
8 regulatory costs specified in Order 93-695 should be updated to include values in current
9 dollars, as oppose to 1990 dollars.

10 PacifiCorp also agrees with Staff that it is appropriate to evaluate CO₂ over a range of
11 possible futures. Since there is a correlation between the costs of the four pollutants,
12 evaluating CO₂ costs over a range of scenarios results in a sensitivity analysis in conjunction
13 with the other three pollutants.

14 However, PacifiCorp strongly disagrees with the proposal that: “compliance cost
15 projections should consider damages from pollution and estimates of mitigation costs.”
16 When the Environmental Protection Agency and other regulatory bodies set emission control
17 levels, these regulations consider human health and environmental impacts when determining
18 the appropriate and cost-effective level of controls. When the Company determines cost of
19 compliance it is, therefore, already considering damage costs associated with emissions. No
20 separate analysis of damage or mitigation costs should be required.

21 **Issue 17: How should customers eligible to choose an alternative**
22 **electricity or natural gas supplier be accounted for in integrated resource**
planning?

23 **Related Staff Guideline: 10.**

24 **Answer:** PacifiCorp agrees with Staff’s comments regarding the fact that PacifiCorp
25 should continue at this time to plan to serve the entire forecasted load in its Oregon service
26 territory. PacifiCorp interprets Staff’s proposed guideline as reflecting this conclusion.

1 **Issue 21: How should the resource planning margin be determined to**
2 **ensure resource adequacy and consider cost?**

3 **Related Staff Guideline: 13.**

4 **Answer:** There are two aspects of resource adequacy that generally need to be
5 addressed:

- 6 1) Defining effective metrics of resource adequacy, and
- 7 2) Establishing a range of acceptable levels for resource adequacy metrics.

8 There are a number of resource adequacy metrics that have been defined. Perhaps the
9 most prevalent metric is Planning Reserve Margin (PRM). Although PRM has the advantage
10 of being easily assessed for any power system or proposed portfolio, it is only an indirect
11 indicator of resource adequacy. PRM’s shortcomings are tacitly acknowledged in the OPUC
12 discussion regarding the importance of taking into account both unit size and unit outages in
13 developing portfolios—PRM does not take account of the load carrying capability of diverse
14 units.

15 Probabilistic metrics implicitly take account of each portfolio’s ability to meet
16 targeted resource adequacy levels. Among these metrics are Loss of Load Probability
17 (LOLP) and Expected Unserved Energy (EUE); however there are others as well. In general,
18 the probabilistic metrics define the frequency or intensity (*e.g.*, duration and size) of failures
19 to meet load due to insufficient generation capacity. These metrics also have shortcomings—
20 they tend to be difficult to measure, some do not have uniform definitions (*e.g.*, LOLP)
21 across the industry, and some are not normalized to the size of the system (*e.g.*, EUE).

22 PacifiCorp proposes that utilities continue to be allowed to explore the difficult task
23 of establishing minimum resource adequacy levels through public processes where the issues
24 can be laid out, reasonable conclusions reached, and, if appropriate, new measures
25 implemented in future IRPs. It is appropriate for Staff to continue to be heavily involved in
26 those processes. But it is not clear that an “optimal” level of resource adequacy can be

1 determined with great certainty. Nor is it clear that an optimal level in today’s environment
2 will be optimal in the future. Regulators and utilities should continue to explore these issues
3 together with other stakeholders without being overly prescriptive at this time. Targeting
4 probabilistic measures, such as LOLP, appears to address many of the concerns expressed in
5 Staff’s discussion. Attempting to determine an optimal level of PRM over all portfolios and
6 all years is not technically practical at this time, nor is it likely to result in a more optimum
7 resource portfolio.

8 **Issue 20: How should distributed generation be addressed in**
9 **integrated resource planning?**

10 **Related Staff Guideline: 14.**

11 **Answer:** CHP modeling, and modeling of other potentially economically viable
12 distributed generation (DG) resources, can be conducted with varying levels of theoretical
13 generation in portfolios. The issue is forecasting a feasible and dependable amount of DG
14 capacity suitable for long term resource planning. Customer economics, assessment of risk,
15 and desire to enter the energy business are major factors in the decision by customers when
16 they assess the appropriateness of a DG system for their business. PacifiCorp cannot predict
17 these types of customer actions on a long-term basis. CHP projects are brought on line and
18 removed from service based on customer-specific economics and reliance on them can risk
19 maintenance of targeted planning reserve margins.

20 **3. Other Issues**

21 **Issue 4(b): Should integrated resource plans discuss global warming**
22 **and its potential impacts on utility customers?**

23 **Related Staff Guideline: None, discussed in other issues.**

24 **Answer:** PacifiCorp believes it is prudent to recognize within the IRP
25 framework the potential for government imposed environmental costs associated with
26 climate change policy. PacifiCorp specifically has a goal of addressing climate change with

1 additions of renewable generation and conservation and, where feasible, offsets. In
2 recognition of potential future regulation, PacifiCorp also has adopted quantitative estimates
3 of future CO2 emissions costs. However, PacifiCorp is not in a position to perform analysis
4 on all varieties of potential climate change impacts on customers (e.g., health impacts).

5 **Issue 10: What is the significance of Commission acknowledgment of**
6 **a resource action in a prudence hearing or rate case regarding an**
7 **investment or purchase? For example, what type of prudence challenge**
8 **will the Commission consider if the utility acquires a specific resource or**
9 **a targeted level of resources of a certain type, consistent with the**
10 **acknowledged action plan?**

11 **Related Staff Guideline: None, discussed in other issues.**

12 **Answer:** The current definition of acknowledgment is as follows:
13 “Acknowledgment of a plan means only that the plan seems reasonable to the Commission at
14 the time the acknowledgment is given.” Order No. 89-507. However, the Commission made
15 clear in Order 89-507 that it will not usurp the role of the utility as decision-maker. Instead,
16 utility management retains full responsibility for making resource decisions while having the
17 benefit of the information and opinion contributed by the public and the Commission. Once
18 the utility has made a resource decision, the Commission will decide whether and at what
19 amount to include the costs of the resource in the utility’s revenue requirement in filings
20 under ORS 757.205 or ORS 757.215. The utility has the obligation to demonstrate the
21 prudence of the resource decision at that time.

22 In general, PacifiCorp does not believe that changes to the Commission’s current role
23 in the IRP process are warranted at this time. However, the Company believes it is
24 imperative for the Commission to reaffirm its existing prudence standard as it applies to the
25 IRP context. Specifically, the Commission’s prudence standard determines whether a given
26 utility decision or action is prudent based on the information that was known or knowable at
the time the utility made the decision or took the action. *In the Matter of the Application of*
PACIFICORP for an Accounting Order Regarding Excess Net Power Costs, et al., UM

1 995/UE 121/UC 578, Order No. 02-469 at 4 (2002). It is PacifiCorp’s position that the IRP
2 public input process is particularly well-suited for parties to present information then known
3 or knowable that they believe is relevant to the utility’s planning process. Therefore, when
4 the Commission acknowledges an IRP and Action Plan and accordingly, finds that it “seems
5 reasonable” at that point in time, the Commission should also make clear that it will not
6 revisit in a subsequent proceeding the question of what was known and knowable at the time
7 of that IRP planning cycle. If parties who have participated in the process are later allowed
8 to present information that was known or knowable during that prior process, and they chose
9 not to put forth, the IRP process will ultimately have little value to the Commission, the
10 parties and the utilities.

11 This does not mean that the utility is precluded from resource decisions not
12 specifically contained in an acknowledged resource plan or that the plan as acknowledged
13 must be implemented exactly as interpreted. Nevertheless, the Commission should make
14 clear that the IRP is relevant to the question of rate-making treatment in later proceedings. It
15 will be relevant, probative evidence of what was known and knowable at the time of the IRP
16 planning process and acknowledgment.

17 **Issue 11b: Should incremental gas transportation and electric**
18 **transmission capacity needs be modeled at both rolled-in embedded cost**
and incremental cost, allowing for the comparison of both in the IRP?

19 **Related Staff Guideline: None, discussed in other issues.**

20 **Answer:** PacifiCorp believes the only relevant costs for comparison purposes in
21 planning are incremental costs because embedded costs are a sunk cost irrelevant to decisions
22 going forward. By incremental costs, PacifiCorp is referring to those costs that the Company
23 has not yet committed to incur.

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Issue 12: How does the Oregon Energy Trust’s responsibility for conservation and renewable resources affect the integrated resource planning process for Portland General Electric, PacifiCorp and NW Natural?

Related Staff Guideline: None, discussed in other issues.

Answer: Currently, PacifiCorp uses the Energy Trust’s year-by-year conservation projections as decrements to its load forecast for planning purposes. The utilities continue to work with, and provide information to, the Energy Trust for their planning purposes. Because the Energy Trust administers public purpose funds under a specific statutory scheme, with oversight from the Commission, it is not appropriate to require utilities to continue to develop separate and supplemental conservation plans independent from the work of the Energy Trust. Moreover, it has been a disputed issue among the parties whether the utility can recover the costs of any activities covered by the public purpose charge in excess of the three percent charge. Until this issue is resolved in an appropriate Commission proceeding with sufficient analysis from the parties, the Commission should adopt no new guidelines requiring utility planning separate from and supplemental to the work of the Energy Trust.

Issue 18: Should integrated resource plans evaluate the impact of resource decisions on retail rates?

Related Staff Guideline: None, discussed in other issues.

Answer: Under an existing requirement from another of PacifiCorp’s retail jurisdictions, PacifiCorp already evaluates the impacts of various portfolios on customers as part of its IRP process. The customer impact analysis provides an indication of expected rate direction, but does not represent rates fully allocated by state and customer class. Rather, PacifiCorp’s analysis considers only the incremental costs of the new resource additions and variable operating costs of generation supply. It would be difficult and cumbersome for

1 PacifiCorp to provide a projection of total PacifiCorp revenue requirement impacts for each
2 portfolio.

3 **Issue 19: For expiring contracts, should integrated resource planning**
4 **assume expiration or renegotiation or some combination of the two**
5 **options?**

6 **Related Staff Guideline: None, discussed in other issues.**

7 **Answer:** It may be reasonable to assume certain supply-side and interruptible
8 contracts will continue based on the historical experience with the counterparty, remaining
9 term of the contract and the market conditions assumed in the planning forecast; however,
10 PacifiCorp does not think the Commission should adopt a prescriptive rule that dictates that
11 utilities should always assume that the contracts will continue or not continue. Instead,
12 utilities should explain in the IRP what assumptions have been made regarding expiring
13 contracts based on the information known at that time and party and Commission input.

14 For example, with respect to QF contracts, PacifiCorp asks that the Commission
15 observe that under the Energy Policy Act of 2005, §1253, the utilities' PURPA obligation to
16 purchase from qualifying facilities will be terminated at such time that the utility makes a
17 demonstration to FERC that the QF has non-discriminatory access to competitive markets.
18 While PacifiCorp has not made any such filing at FERC at this time, it may do so in the
19 future if it determines that the conditions necessary to terminate the mandatory purchase
20 obligation exist. Accordingly, PacifiCorp requests that the Commission take no action at this
21 time that would predetermine that PacifiCorp must assume that contracts with QFs will
22 continue. Instead, like the supply-side and interruptible contracts discussed above, the
23 Commission should instead allow utilities to explain the reasonableness of their assumptions
24 in the IRP filings.

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1 **Issue 23: How should the requirement in OAR § 860-038-0080(1)(b)**
2 **that new resources be reflected in rates at market rates impact the**
3 **integrated resource planning process?**

4 **Issue 24: How should a utility’s request to waive the market price**
5 **rule for new resources impact the integrated resource planning process?**

6 **Related Staff Guideline: None, discussed in other issues.**

7 **Answer:** PacifiCorp agrees with Staff that the Commission has given parties
8 direction in UM 1066, Order 05-133 that until such time as the Commission concludes a
9 series of investigations into IRP, competitive bidding and performance-based ratemaking,
10 that utilities wanting to include new generating resources in revenue requirement at cost
11 should file a request to waive the administrative rule at the Commission. Further, for
12 purposes of this docket, parties were directed to “focus on cost, not market.” PacifiCorp
13 agrees with Staff that given these and other factors, the rule has not yet had a significant
14 impact on the IRP process to date. However, once the Commission concludes its
15 investigations into these issues, PacifiCorp believes that the parties should revisit whether the
16 Commission’s ultimate conclusion affects the IRP process.

17 **Issue 25: How should integrated resource planning be integrated**
18 **with SB 1149 requirements? How do the following SB 1149**
19 **implementation issues affect current resource plan requirements:**
20 **availability of a cost of service rate for different customer classes, the**
21 **resource plan requirements (OAR 860-038-0080) and long-term supplies**
22 **for standard offer service? How should an option for large customers to**
23 **opt out of PGE’s and PacifiCorp’s new generation resources be**
24 **accounted for in integrated resource planning?**

25 **Related Staff Guideline: None, discussed in other issues.**

26 **Answer:** PacifiCorp agrees with Staff’s comment that until such time as the cost
of service provision of ORS 757.603 is waived for any customer class, and therefore, utilities
need not continue to offer a cost of service option to those customers, the resource plan
requirement will not affect the IRP process. Instead, because of the cost of service option,

1 the utility’s load and resource forecast must continue to reflect customer loads that may be
2 served by alternative electricity service suppliers over the planning horizon.

3 **Issue 26: What is the relationship between an integrated resource**
4 **plan and a resource rate plan under ORS 757.212?**

5 **Related Staff Guideline: None, discussed in other issues.**

6 **Answer:** As discussed above, the IRP process determines the need, type, timing
7 and preferred characteristics of available resources but does not in itself identify the specific
8 resource the utility will be able to acquire. Instead, utilities will acquire resources through
9 competitive bidding processes or other acquisition methods. At such time as the utility has
10 made a determination about a resource it intends to pursue, the utility may, at its option, file a
11 resource rate plan pursuant to ORS 757.212 or seek traditional ratemaking recovery under
12 ORS 757.205. The IRP plan may be relevant in the ORS 757.212 filing to the extent that
13 Commission acknowledgment of the plan is probative, but not dispositive, evidence that the
14 action was prudent as discussed above.

15 **II. CONCLUSION**

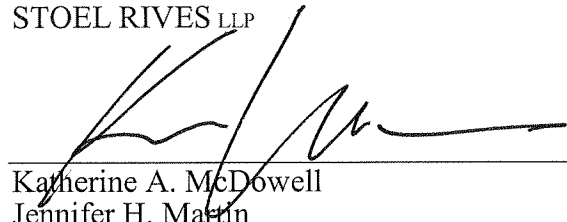
16 In Order 89-507, the Commission established a durable and flexible approach to
17 utility integrated resource planning. PacifiCorp submits that there is no compelling reason to
18 deviate from that approach in reviewing any updates to the planning process. Instead, there
19 are changes to the substantive and procedural guidelines previously adopted by the
20 Commission that maintain durability and flexibility discussed herein that should be adopted.

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1 In responding to the issues on the issues list, the Commission should reject
2 recommendations to set prescriptive guidelines that cannot stand the test of time or changes
3 in the industry, technology and analytical tools available. Further, the Commission should
4 carefully separate the appropriate considerations in a planning process from those better left
5 to the procurement process.

6 DATED: September 9, 2005.

7 STOEL RIVES LLP

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9 _____
10 Katherine A. McDowell
11 Jennifer H. Martin

12 Attorneys for PacifiCorp
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CERTIFICATE OF SERVICE

I hereby certify that I served the foregoing document upon the parties of record in Docket UM 1056 on the date indicated below by email and first class mail, mailing a true copy to said person(s) at his or her last-known address(es) indicated below.

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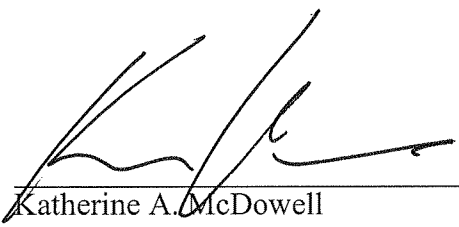
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