

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

LC 39

In the Matter of

PACIFICORP,

2004 Integrated Resource Plan.

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REPLY TO STAFF'S COMMENTS

OF THE

CITIZENS' UTILITY BOARD OF OREGON

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I. Staff Questions The Need And The Response

Staff’s comments on PacifiCorp’s 2004 Integrated Resource Plan appropriately focus first on whether the need for resources identified by PacifiCorp is an accurate reflection of PacifiCorp’s future loads and resource needs. By examining lower load forecasts and a planning margin lower than the 15% adopted by PacifiCorp, Staff demonstrated that, under a number of acceptable and realistic situations, the present value of revenue requirement of potential resource portfolios changes rather significantly. Staff/1-4. Given this, Staff explores more directly what CUB intimated: there is considerable value in delaying large investments in long-term generation resources – specifically a coal resource – by exploring investment in demand-side resources and possibly additional transmission to market hubs. Staff/1-2 and Staff/8-9.

Staff's comments include an assessment of potential carbon costs in the increasingly-likely event of serious climate change. Staff, as well as CUB and a number of other intervenors, came to the conclusion that PacifiCorp's carbon adder of \$8/ton of CO₂ is politically feasible now, but does not begin to represent the potential far-reaching costs of carbon emissions in light of the scientific and economic analyses of climate change that are currently available. If one includes a more serious accounting of carbon risk, then Portfolio M, the all-gas portfolio, becomes the least costly of all portfolios under the Company's base case assumptions; and Staff's comments recognize this change. The result of Staff's analysis is the same as that of most of other Parties: the Commission should not acknowledge a new coal unit by 2011. Staff wisely asks for, and we echo Staff's request, further assessment of IGCC and sequestration technologies in PacifiCorp's next IRP.

II. Clarifying Who Is At Risk For What

PacifiCorp inadvertently raises an issue in its Response to Oregon Party Comments that deserves some attention. On page 6 of its response, PacifiCorp essentially agrees with the Oregon parties that a coal unit does present risks, but goes on to say that this risk does not particularly bother PacifiCorp, because "we expect that risks to cost recovery would be minimal given regulatory mechanisms – and the Multi-State Process – that are in place." The Company then adds that, "PacifiCorp's experience is that once the costs of a new generation unit are shown to be prudent, there are not serious future impediments to recovery of the costs in rates."

While CUB is sometimes concerned about how shareholders are faring, in this case we raised the concern about risks of coal, CO₂ regulation, and climate change in

general, because we are concerned about the risks and costs that will be borne by ratepayers and the state. PacifiCorp's ability to wash itself of any risk (because regulatory mechanisms will protect the shareholder) is precisely the reason customers are worried about the future carbon risk the Company expects us to bear. It is with a mind toward protecting the ratepayer (although the shareholder would be wise to pay attention as well) that we recommend the Commission not acknowledge PacifiCorp's proposed new coal units.

In an otherwise very thorough and thoughtful Draft Proposed Order, we think that the draft order misses an opportunity to clarify the significance of specifically not acknowledging the utility's proposed coal plant. Clearly, the non-acknowledgement neither constitutes ratemaking, nor does it physically prohibit PacifiCorp from building a coal plant. What non-acknowledgement does do, is put the utility on notice that when it proposes to rate base an unacknowledged coal plant in a future rate case, the Commission is free to use a number of ratemaking tools to allocate the costs and risks of that plant in a manner consistent with the acknowledged IRP.

The Commission might consider inserting language in the Order such as:

While the Commission has specifically not acknowledged a new coal unit in this IRP, it does not mean that PacifiCorp may not choose to invest in a new coal unit and seek cost recovery in a future rate case. If that situation were to arise, the Commission has at its disposal several tools to allow cost recovery in a manner that is consistent with this order and which appropriately allocate the costs and risks between shareholders and ratepayers. Such tools could include a finding that the coal unit is imprudent, and no recovery is allowed; an imputation of a zero or low CO₂-emitting resource in place of the coal plant; or an allowance for cost recovery of CO₂ regulation up to, but no more than, \$8/ton of CO₂. As the IRP is not a ratemaking process, we decline at this stage to identify the Commission's response to a future rate case application.

III. Distributed Generation

We think we detect some frustration from Staff in its comments on distributed generation, and we think we agree with Staff's point, but we will try to state the issue from our point of view. It is the utility's responsibility to assess all generation options and to create a diverse integrated portfolio towards a least-cost system. Recent discussions have centered around whether the Energy Trust should divert money dedicated to acquiring cost-effective energy efficiency toward subsidies for Combined Heat and Power facilities (CHP). We think this would be robbing Peter to pay Paul, by undercutting the very energy efficiency acquisition assumed in the IRP. In addition, we should be relying on the utility to identify the efficient CHP opportunities in its IRP, and, if appropriate CHP opportunities become part of the acknowledged portfolio, we should expect that the utility would acquire those resources.

The Commission ought to encourage, if not pressure, the utilities to examine CHP possibilities. Utilities should not be working to figure out reasons not to do CHP, but envisioning ways to make CHP work. This may require a new way of thinking, both at the IRP stage and at the RFP stage, where problems, many of which are legitimate, may be worked out in bilateral arrangements. We see Staff's comments as an effort to try to get PacifiCorp to rethink its treatment of CHP. We would hope that before we cut funding for energy efficiency, because we are tapping the same pot of money to spend millions on CHP, the Commission would encourage the utility to fulfill its obligation and acquire an interest in CHP (should an objective analysis support that direction). If CHP is good enough to spend energy efficiency money on, utilities should be pursuing it anyway, and saving energy efficiency money for energy efficiency.

IV. Conclusion

We commend Staff for its thoughtful analysis and thorough Draft Proposed Order. The Commission's order on PacifiCorp's IRP will determine the next resources developed by PacifiCorp, and these resources may still be operating in 2050 or beyond. We recommend that the Commission adopt the proposed order with the additional language we offered on what non-acknowledgement means.

Respectfully Submitted,
July 13, 2005

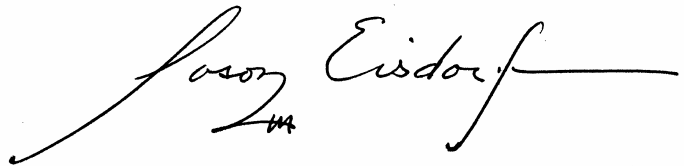
A handwritten signature in black ink, reading "Jason Eisdorfer". The signature is fluid and cursive, with a long horizontal line extending from the end of the name.

Jason Eisdorfer
Legal Counsel

CERTIFICATE OF SERVICE

I hereby certify that on this 13th day of July, 2005, I served the foregoing Reply to Staff's Comments of the Citizens' Utility Board of Oregon in docket LC 39 upon each party listed below, by email and U.S. mail, postage prepaid, and upon the Commission by email and by sending 6 copies by U.S. mail, postage prepaid, to the Commission's Salem offices.

Respectfully submitted,



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