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**DEPARTMENT OF JUSTICE**  
GENERAL COUNSEL DIVISION

October 12, 2006

VIA EMAIL AND REGULAR MAIL

Attention: Filing Center  
Public Utility Commission of Oregon  
550 Capitol Street NE, #215  
PO Box 2148  
Salem, OR 97308-2148  
[Puc.filingcenter@state.or.us](mailto:Puc.filingcenter@state.or.us)

Re: *In the Matter of PACIFICORP Draft 2009 Request for Proposals to Order No. 91-1383*  
PUC Docket No. UM 1208  
DOJ File No. 330-030-GN0967-06

Enclosed please find the original Oregon Department of Energy's Reply Comments for filing today in the above-captioned matter.

Sincerely,

*/s/ Mark Schumock*

Janet L. Prewitt  
Assistant Attorney General  
Natural Resources Section

Enclosures

c: Phil Carver, ODOE  
Mike Grainey, ODOE  
UM 1208 Service List

JLP:jrs/GENR6147

BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON

UM 1208

In the Matter of	)	
PACIFCORP Draft 2009 Request for	)	OREGON DEPARTMENT OF ENERGY'S
Proposals Pursuant to Order No. 91-1383	)	REPLY COMMENTS
_____	)	

PacifiCorp asks the Commission to conditionally approve the 2012 RFP process. The Oregon Department of Energy (ODOE) is not opposed to PacifiCorp's proposal to blend the 2012 RFP and the 2006 IRP modeling processes. This process should proceed.

Where ODOE differs with PacifiCorp is on the specific input assumptions of the modeling effort. With the inputs proposed by PacifiCorp, it is unlikely the modeling will lead to a "least-cost, least-risk resource portfolio."

As discussed in its Initial Comments, ODOE objects to three base-case assumptions that PacifiCorp proposes in its Reply Comments:

1. "the \$8.00 per ton base-case adder" for CO<sub>2</sub> regulatory costs (PacifiCorp Reply Comments, p. 2, lines 10-14),
2. the reservation of "1,400 MW for renewable resources in bid evaluation modeling," (PacifiCorp Reply Comments, p. 8, lines 5-6)
3. The assumption that wind plants have 20-year lives and coal plants have 40-year lives (See PacifiCorp's response to ODOE data request # 8, ODOE Initial Comments, Attachment 2, p. 3.)

In addition, it is still unclear how the RFP will differentiate among thermal resources with different shaping capabilities. PacifiCorp's response to ODOE's data request # 10, makes clear there are substantial differences. See ODOE Initial Comments, Attachment 2, p.4. PacifiCorp's Reply Comments did not clarify how those differences will be taken into account in the evaluation process on the 2012 RFP bids.

PacifiCorp's reply comments also did not address the third issue: the different lifetime assumptions for wind and coal plants. For the first two issues (the CO<sub>2</sub> adder and the reservation of 1,400 MW renewables in the bid evaluation modeling), PacifiCorp provides no evidence in its Reply Comments to support its input assumption or to rebut ODOE's proposal of significantly higher values.

If PacifiCorp does not agree to changes in these assumptions, the Commission should indicate it is unlikely it will be able to acknowledge PacifiCorp's final short-list of RFP resources in proceedings in 2007.

### **Possible Renegotiation of the Multi-State Agreement**

PacifiCorp's Reply Comments raise the issue of renegotiation of the Revised Protocol of the Multi-State Agreement (MSA). Possible renegotiation of cost allocations should not deter the Commission from implementing Order No. 06-466.

PacifiCorp should clarify its intentions regarding renegotiation of the Revised Protocol for the Multi-State Agreement on cost allocation. PacifiCorp should indicate if it intends to propose revisions to the MSA on cost allocation based on its filings on Oct. 3, 2006 in WUTC Docket # UE-061546. *See*

<http://www.wutc.wa.gov/rms2.nsf/vw2005OpenDocket/0E9745DBF6E20440882571FC006522>

[F8](#)). It is also unclear if PacifiCorp intends to exclude all the acquisitions from the 2012 Baseload RFP from Oregon under the West Control Area (WCA) method for allocating PacifiCorp's total company costs.

ODOE does not oppose renegotiation of the Revised Protocol of the Multi-State Agreement (MSA) on cost allocations. However, for UM 1208 the Commission has to assume

the current cost allocation agreement is in place. Further, no reallocation of cost can completely insulate Oregon customers from the risks of future climate change regulation.

If future regulatory costs are large enough, it will impact MidAmerican's and PacifiCorp's cost of capital. It will be hard for the Oregon PUC to exclude these increased borrowing costs from rates, as that would likely further increase the cost of borrowing. Possible future renegotiations of the cost allocation does not remove the Commission's responsibility to review the reasonableness of the inputs used in the RFP evaluation methodology.

### **Global Warming and CO<sub>2</sub> Regulatory Costs**

The Commission should condition its approval of the RFP on PacifiCorp using the CEM and PaR models to study a scenario where PacifiCorp's system emissions achieve Governor Kulongoski's goals for reducing CO<sub>2</sub> emissions between now and 2050. These goals were unanimously adopted by the Governor's Advisory Group on Global Warming, in which the PUC participated.

The key issue is whether the future value of CO<sub>2</sub> allowances under a national cap and trade system will be higher than the incremental cost of CO<sub>2</sub> reductions from building an IGCC plant with sequestration compared to the cost of super-critical pulverized (SCP) coal. If the value of CO<sub>2</sub> allowances is greater than the incremental cost, the SCP coal plant will have been an uneconomic choice. This is true even if PacifiCorp's new coal plants are grandfathered into a cap-and-trade CO<sub>2</sub> regulatory system. In this scenario, after the allocation of grandfathered allowances PacifiCorp will be able to sequester CO<sub>2</sub> and profitably sell the excess allowances.

This scenario should be used to forecast the CO<sub>2</sub> adder from 2010 through 2050. In this modeling, the IGCC benchmark plant would be modeled as installing geological sequestration when the CO<sub>2</sub> cost adder is high enough to make that economic. The CO<sub>2</sub> cost adder should be

large enough so that the present value of costs for an IGCC plant with sequestration would be less than for a pulverized coal plant. As this scenario achieves the Governor's 2020 emissions goals, this implies an adder that rises to a level that triggers sequestration by IGCC plants prior to 2020. The CEM and PaR models should be run with this CO<sub>2</sub> scenario.

This scenario is highly plausible given the scientific and economic trends of the last 20 years. For this scenario PacifiCorp's system CO<sub>2</sub> emissions would be 10 percent below the 1990 level by 2020 and 75 percent below 1990 by 2050 (see page ii of the Oregon Strategy for Greenhouse Gas Reductions, Final Report, Governor's Advisory Group on Global Warming, December 2004, <http://www.oregon.gov/ENERGY/GBLWRM/docs/GWReport-Final.pdf>). This path of reductions is consistent with emission reduction requirement being implemented by California and at least eight Northeast states.

PacifiCorp's Reply Comments characterize ODOE and other parties as asserting "that the Commission should assume that California style emission regulation **is already** in place in Oregon while reviewing this RFP." (PacifiCorp Reply Comments, p. 6, emphasis added). This is incorrect. ODOE is asking the Commission to recognize that sometime between now and 2020 federal action is likely to occur that, as part of a global agreement, by 2020 reduces worldwide emissions below the level of 1990. The Commission should also assume that this agreement achieves the Governor's reduction goals between 2020 and 2050.

PacifiCorp would have the Commission assume an \$8 per ton CO<sub>2</sub> cost adder through 2053. This is the assumed lifetime of the second benchmark pulverized coal plant in the 2012 RFP. This implies ever growing U.S. and worldwide CO<sub>2</sub> emissions.

While PacifiCorp’s base-case scenario is possible, it seems unlikely given increasing public awareness of the findings of climate scientists and increasing likelihood of further regulatory actions on the state and federal level.

**1,400 Nameplate MW of Renewable Generation.**

PacifiCorp’s Reply Comments state that it plans to incorporate 1,400 nameplate MW of renewable generation in its CEM and PaR models. This level is likely inadequate and is not substantiated.

If this plan relies primarily on wind plants, it will yield only about 500 average MW of power. In contrast, the 2012 Baseload RFP seeks to acquire 1,600-to-2,290 MW of base-load resources. At the 85 percent dependable generating capacity factor in the Tolling Service Agreement for a PacifiCorp site, this would be 1,360-to-1,946 average MW. Thus, renewable acquisitions could be as little as 26 percent of PacifiCorp’s generation additions over the period.

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The 1,400 nameplate MW of renewables in the January 2003 IRP was an artifact of the inputs used in the modeling. There was no empirical basis for the 1,400 MW input assumption. The 1,400 MW value was carried into the IRP published in January 2005 without further analyses. The Commission should condition its approval of the RFP on a new analysis in the IRP that demonstrates the appropriate level of renewables in the CEM and PaR modeling, including a scenario with CO<sub>2</sub> regulatory costs that are consistent with the Governor's global warming goals.

DATED this 12<sup>th</sup> day of October 2006.

Respectfully submitted,

HARDY MYERS  
Attorney General

*/s/ Mark Schumock*

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SERVICE LIST (UM 1208)

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CERTIFICATE OF SERVICE

I hereby certify that on the 12<sup>th</sup> day of October 2006, I served the foregoing OREGON DEPARTMENT OF ENERGY'S REPLY COMMENTS, upon, the persons named on the attached service list, by mailing a full, true and correct copy thereof addressed to the persons at the addresses on the UM 1208 service list (with the exception of those parties having waived paper service).

DATED: October 12, 2006.

*/s/ Mark Schumock*

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