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July 26, 2007

***VIA ELECTRONIC FILING
AND OVERNIGHT DELIVERY***

Oregon Public Utility Commission
550 Capitol Street NE, Suite 215
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Attention: Vikie Bailey-Goggins
Administrator, Regulatory Operations

Re: **Docket No. UM 1302**
In the Matter of an Investigation Into the Treatment of CO₂ Risk in the Integrated Resource
Planning (IRP) Process

Enclosed for filing by PacifiCorp dba, Pacific Power & Light Company ("PacifiCorp" or "the
Company") is PacifiCorp's Opening Comments in the above-captioned docket.

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

Sincerely,

A handwritten signature in black ink that reads "Andrea L. Kelly" followed by a stylized flourish.

Andrea L. Kelly
Vice President, Regulation

Enclosure
cc: Service List for UM 1302

CERTIFICATE OF SERVICE

I hereby certify that on this 26th day of July, 2007, I caused to be served, via E-Mail and Overnight Delivery (to those parties who have not waived paper service) a true and correct copy of PacifiCorp's Opening Comments in Docket No. UM 1302

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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1302

In the Matter of the

PUBLIC UTILITY COMMISSION
OF OREGON

Investigation Into the Treatment of CO₂
Risk in the Integrated Resource Planning
(IRP) Process

OPENING COMMENTS OF
PACIFICORP

Pursuant to the May 14, 2007 corrected ruling, PacifiCorp, dba Pacific Power & Light Company (“the Company”), hereby submits its opening comments in the above-captioned docket.

I. Introduction

PacifiCorp appreciates the opportunity to provide the Public Utility Commission of Oregon (“Commission”) its initial comments in Docket UM 1302, “Investigation into the Treatment of CO₂ Risk in the Integrated Resource Planning (IRP) Process.” The Company believes it is important to address CO₂ risk in its IRP and has been doing so for over 10 years, largely under the guidance of the Commission.

The parties to this docket prepared a joint issues list that was adopted by the Administrative Law Judge on April 20, 2007. The questions presented in the issues list ask how CO₂ risk should be addressed in the IRP base case and scenario analysis, and more fundamentally, if the alternative futures used in the scenario analysis provide an adequate measure of the cost risk associated with choosing one portfolio over another or if there is a better approach. The issues list also requests input on the use of “trigger

points” in the IRP analysis, and asks how carbon or other greenhouse gas goals of the State of Oregon should be incorporated into utility IRPs.

These are important questions that would be best informed by an overall climate change policy for the state. For the Commission to effectively address these questions in its rules or policies, it needs guidance from the legislature. If the legislature sets carbon or other greenhouse gas emission goals for Oregon electric utilities, then it would be necessary for the Commission to implement those state goals through regulations. PacifiCorp believes that without this over-riding policy guidance from the legislature, it would be premature for the Commission to adopt any prescribed approach for addressing carbon risk in utility IRPs.

II. Overall Approach

As mentioned in the introduction, the Company has already included CO₂ risk analysis in its IRPs for many years. As an overall approach, the Company believes the Commission should not be unduly prescriptive in how it asks the utilities to address CO₂ risk given the uncertainties surrounding state policy at this time. The utilities should be allowed to adapt to potential changes in future CO₂ regulation, as we have done in the past. Each utility must formulate a risk analysis strategy based on the best information available at the time, with reliance on the public process to help shape that strategy. Dialogue between utilities can be increased to attempt to standardize the risk analysis framework in a way that still affords each utility flexibility to specify analytical details.

This approach is consistent with the scope of IRP guidelines currently used in Oregon and other states served by the Company.¹ It also recognizes that IRP analysis must be adaptable to rapidly changing regulatory circumstances. Generally, a flexible approach will allow for adaptation to any future policy guidance or legislation. A situation where the Company must perform a Commission-prescribed CO₂ risk analysis and then augment that with a more informative discretionary analysis is not only inefficient given limited Company resources, but complicates the portfolio decision-making process.

III. Base Case

Issue One on the adopted issues list asks what CO₂ regulatory cost streams and regulatory futures should be used as the basis for the IRP base case. The Company's view is that the Commission should not prescribe specific hypothetical carbon adder cost values or legislative futures for the IRP base case. Instead, a utility should define its base case according to its forward view of legislative and regulatory activity, which is informed by input from the IRP public process.

Oregon's current energy policy requires the Commission to consider cost-effectiveness in reviewing utility resource decisions. The cost-effectiveness test must include all existing state CO₂ regulations. The Commission would deviate from existing state energy policy that emphasizes cost effectiveness if it were to prescribe hypothetical CO₂ cost values or legislative futures for use in the base case. Ultimately at the state, regional, federal or international level, there may be a regime of binding CO₂ regulations,

¹ The current Oregon guideline on CO₂ is the only guideline that specifies particular values that must be included in the IRP analysis. The Company's recommendation in this proceeding is to remove specific values from the guideline until the state legislature has provided direction on this issue.

but when, what and how much are still unknown. Allowing the utility flexibility to adapt to these changes will result in a more constructive and relevant IRP.

A review of key Commission decisions may provide guidance for this docket. The following analysis demonstrates the evolution of the Commission's current policies regarding cost-effectiveness and including carbon adder costs in utility IRPs.

Oregon's energy policy requires consideration of cost-effectiveness in state agency decision-making relating to energy resources. ORS 469.010(1)(f). The Commission embraced and interpreted the cost-effectiveness standard in *In re: Adoption of Administrative Rules Relating to Cost-Effective Fuel Use and Resource Development*, Order No. 85-010, Docket AR 112 (1985). In this Order, the Commission made several important points:

- "An economic approach to energy policy is the most appropriate approach" for the Commission. *Id.* at 1.
- To ensure that ratepayers do not have to pay more for new resources than necessary, the Commission must "make decisions which reflect economic reality, not ideology or wishful thinking." *Id.* at 2.
- "All energy policies should be judged on a standard of cost-effectiveness. Prudent application of a cost-effectiveness standard is the best way to assure adequate supplies of energy resources in the future at the lowest cost to the ratepayers." *Id.* at 3.
- Under ORS 756.040(1), the Commission's representation of the public on resource decisions is limited to customers of the investor-owned utilities and to

residents of the State of Oregon, and does not encompass the interests of customers in the region or society at large. *Id.* at 4.

- The Commission should not consider broad social goals in determining how to apply Oregon's energy policy because a Commission "setting rates based upon the social benefits would be acting as a mini-Legislature rather than a utility regulator, whose lawful concern is 'adequate service at fair and reasonable rates.'" *Id.* at 7.
- The Commission's "primary objective is to evaluate proposals with a view to keeping rates for consumers at the lowest possible level over the long run. Programs which do not meet the criteria of cost effectiveness and equity, and are proposed to achieve social or environmental ends, should be addressed to the Legislature. That body is far better suited to deal with the complexity and competing interests presented by social and environmental programs." *Id.* at 7.

Subsequently, noting the consistency with the policies adopted in Order No. 85-010, the Commission found in the generic least cost planning order that economic analysis of resource alternatives required consideration of external resource costs. *In re Least Cost Planning for Resource Acquisitions*, Order No. 89-507, Docket UM 180 (1989). Several years later, the Commission set a range of potential CO₂ regulatory costs for utilities to consider in conducting their IRPs. *In re Guidelines for Treatment of External Environmental Costs*, Order No. 93-695, Docket UM 424 (1993). In adopting sensitivity analysis for specified external resource costs, the Commission stated that it was "not authorized to require a utility to make a resource decision based upon a total resource cost which includes external costs." *Id.* Further, the Commission noted the

advice of the Department of Justice that "the Commission does not have clear statutory authority to impose such costs on a utility, either directly by requiring the utility or its customers to pay the external costs or indirectly by penalizing the utility for choosing a resource with higher external costs." *Id.*

Hypothetical CO₂ regulatory cost debates inevitably turn on technology assumptions: greater optimism about the development of low-carbon technologies will result in lower cost projections while greater pessimism produces the opposite result. Since there is no objective way to adjudicate different views of the future to the satisfaction of all parties, cost debates are inherently intractable. With regard to hypothetical legislative futures, it is equally difficult for Oregon to prescribe to utilities what the future federal or neighboring state policy ought to be for IRP base case modeling. Establishing these goals by proxy in an IRP analysis uniquely impacts multi-jurisdictional utilities, such as PacifiCorp, as well as other states (and their ability to consider the issue differently) and may violate the interstate commerce clause.

The Commission could adjudicate different parties' views of a future Oregon-only carbon policy for the IRP base case (versus a hypothetical economy-wide or regional carbon policy) and then make a recommendation either to the legislature or the newly created Oregon Global Warming Commission. The 2007 session of the Oregon Legislature recently passed B-Engrossed House Bill 3543 (global warming actions), which sets state greenhouse gas reduction goals for 2020 and 2050 and establishes the Oregon Global Warming Commission. Section 10 of the House Bill 3543 sets out a process for the newly formed Oregon Global Warming Commission to "recommend statutory and administrative changes, policy measures and other recommendations to be

carried out by state and local governments, businesses, nonprofit organizations or residents.” It is also charged with “examin[ing] greenhouse gas cap-and-trade systems, including a statewide and multistate carbon cap-and-trade system and market-based mechanisms, as a means of achieving the greenhouse gas emissions reduction goals.”

If the legislature then sets carbon or other greenhouse gas emission goals for Oregon electric utilities, then it would be necessary for the Commission to implement those state goals through regulations, including ensuring they are captured within an IRP base case.

IV. Scenario Analysis

Issue Two asks what CO₂ regulatory cost streams and regulatory futures should be used as the basis for the IRP alternative scenarios. The Company’s view is that the Commission should provide general policy guidance for the construction of CO₂ regulatory cost scenarios. The issue of what scenario design assumptions should be applied to capture CO₂ cost risk, such as bookend carbon tax or allowance price values, should be left to the utilities’ discretion due to the dynamic nature of the policy debates at both the state and federal levels.

Regarding the use of probability weighting per Issue Four, the Company does not advise that subjective weights be added to CO₂ cost adder values because the relative likelihood of alternative values is not known. Staff took a similar position in Docket UM 1056, with which the Commission agreed. The Commission stated “there is no good basis for assigning probabilities...” Docket UM 1056, Order No. 07-002 (p. 17). The application of probabilities implies a degree of precision in characterizing CO₂ regulatory costs that is not warranted or quantitatively supported. In lieu of scenario probability

weighting, the Company supports a robustness criterion in which portfolios are assessed according to CO₂ cost and emissions performance across scenarios.

V. Trigger Points

Issue Five asks how utilities should vary the CO₂ regulatory cost streams to identify “trigger points” that change the preferred resource portfolio and if those trigger points should be tested as other variables change. The Company sees limited, if any, value in trigger points for resource decision-making since each trigger point is only applicable for changes to one variable, assuming all else remains constant. The issue as framed provides no definition as to what is meant by a change in the preferred resource portfolio. If a change in the CO₂ regulatory cost stream shifts one resource by one year does that constitute a trigger point? How do you know when you have found a trigger point? If one were able to define a trigger point, then the next complication would be to assess what would happen if all else were not constant. A new trigger point could be associated with a change in coal cost, variable operating and maintenance cost, natural gas cost, capital costs for each resource type, forward market prices, inflation estimates, load forecasts, thermal performance or hydro conditions. The permutations are endless and the usefulness of the end product for resource decision-making is questionable. Additionally, the complexity and computer run-times of a Monte Carlo simulation precludes the determination of trigger points as part of stochastic risk analysis.

VI. Incorporating State Goals and Policies into Utility IRPs

Issue Three asks how existing and potential future carbon or other greenhouse gas emission goals of the State of Oregon should be included in utility IRPs. As previously mentioned, the Company is looking for guidance from the legislature on the state’s goals.

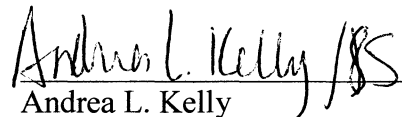
PacifiCorp recommends that existing or potential state goals be modeled as IRP alternative scenarios. However, incorporating potential future goals for scenario analysis in any objective way is difficult unless the Commission clearly identifies a process for developing them. Absent direction from the Commission, the set of potential future goals could be unlimited, and the Company would never be able to meet such a broad standard.

VII. Conclusion

The Company supports continued evaluation of CO₂ risk in the IRP and urges the Commission to adopt guidelines that are broad enough to allow the Company to adapt as state and federal policies evolve over time, yet provide clarity on the carbon or other greenhouse gas emission goals of the State of Oregon that could be incorporated into scenario analyses. Given the uncertainty of future carbon legislation, the Commission may want to address this issue more specifically in acknowledgment orders as guidance for the next IRP.

DATED July 26, 2007.

Respectfully submitted,

A handwritten signature in black ink that reads "Andrea L. Kelly" followed by a stylized flourish or initials.

Andrea L. Kelly
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Pacific Power & Light Company