VIA FIRST CLASS MAIL AND E-MAIL

Comments of the NW Energy Coalition on the Washington Utilities and Transportation Commission Rulemaking Regarding Proposed Revisions to Electric and Gas Least-Cost Planning Rules

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Docket No. UE-030311, electric least-cost planning (WAC 480-100-238), UG-030312, gas least-cost planning (WAC 480-90-238)

Thank you for the opportunity to provide comments on behalf of the NW Energy Coalition with regard to the draft least-cost planning rules. The Coalition supports updating these rules. The Coalition submitted initial scoping comments on May 3, 2003, participated in the June 13, 2003 workshop, and followed up with a joint letter in July 2004 from Natural Resources Defense Council, Renewable Northwest Project and the Northwest Independent Power Producers Coalition urging the Commission to move forward with issuing draft rules. Needless to say, we are pleased to submit these comments on the revised rules and to continue the dialogue with the Commission on the importance of strong IRP rules.

Electric least-cost planning (WAC 480-100-238)

(1) Integrated Resource Planning

We agree with the proposed name change from least-cost planning to integrated resource planning. We also support the change to lowest reasonable cost. This better reflects the fact that cost alone is not the single most important factor to be considered by the utility when meeting customers' resource needs. A more explicit acknowledgment of the broader societal benefits and costs associated with electricity production and distribution would be an important addition to the purpose section.

NWEC Recommendation: We recommend the following addition to this language: Each electric utility regulated by the commission has the responsibility to meet its load with a lowest reasonable cost mix of resources that promotes the societal benefits of reliable and environmentally sound electricity supplies.

(2) (a) Integrated Resource plan

This definition describes generating resources and improvements in the efficient use of electricity as the primary components of an IRP. The Coalition believes that the integrated resource plan should also include analysis and resource assessment of distribution and

transmission system needs. Application of smart grid technologies, such as information technologies and automation systems, clean distributed generation, and combined heat and power systems can lower utility costs, reduce the need for supply side generation, and improve reliability. Integration of distribution system resource analysis into the IRP will give regulators and customers a more complete assessment of the resources needed to meet utility loads.

NWEC Recommendation: we suggest the following alternative definition -
(2) (a) Integrated resource plan or plan means a plan describing the mix of generating resources and improvements in the efficient generation, transmission, distribution and use of electricity that will meet current and future needs at the lowest reasonable cost and risk to the utility and its ratepayers.

(2) (b) Lowest reasonable cost

The transition to lowest reasonable cost is appropriate. The proposed rule includes an evaluation of risk factors as part of the evaluation of costs for each resource. Certainly risk factors are a component of cost but can often be separated from the direct project or resource costs. The Northwest Power and Conservation Council's Fifth Power Plan tracks cost and risk on two different axes when evaluating different resource portfolios. As a result, it is easy to see which resources and/or portfolios of resources are low cost but high risk or high cost but low risk.

NWEC Recommendation: An evaluation of lowest reasonable risk should be separate from the evaluation of lowest reasonable cost and will give the utility and its ratepayers a more complete picture of the benefits and costs of each resource and program.

(2)(c) Lowest reasonable risk

The proposed rule includes market volatility risks, reliability and operational risks as elements that must be evaluated as part of determining lowest reasonable cost. Left off this list of key risk factors is the financial risk associated with future regulation of environmental externalities and/or greenhouse gas emissions. Commission staff state in the December 2003 memo to the Commissioners that there is "no compelling need to introduce additional issues and complexities at this time" when referring to comments made by stakeholders to address valuation of the risk of carbon dioxide emissions.

The Coalition believes that environmental externalities and the risks associated with them are of critical importance to utilities and their ratepayers. Many of these risks are quantifiable and are already regulated and therefore included in the cost of resource development. However, the emission of carbon dioxide, the largest greenhouse gas emission, is not yet broadly regulated. With the ratification of the Kyoto Protocol by many nations, cities and local governments around the world and the scientific consensus on the impacts of human caused greenhouse gas emissions on the global climate it is only a matter of time before national or consistent state constraints are put on the emission of carbon into the atmosphere. In fact, a consortium of institutional investors representing over $4 trillion in assets announced in February 2003 that they are revaluing the

world's 500 largest corporations based on their exposure to climate-related damages, carbon risk, and their position with respect to fossil fuel and clean energy markets[1].

And as you know, Washington and Oregon require new fossil fuel-fired power plants to mitigate their CO2 emissions either directly or with a monetary payment for the value of offsetting the carbon. Governor Gregoire has expressed her support for the West Coast Governors Global Warming Initiative and moving forward with many of the recommendations outlined in the Climate Action Plan prepared by the Puget Sound Clean Air Agency climate working group.

In addition, many utilities, including Puget Sound Energy and PacifiCorp are including specific imputed costs for CO2 in their resource models. Earlier this year, the California Public Utilities Commission adopted a very specific valuation schedule for all its regulated electric and gas utilities to use when imputing a cost for CO2. It is heartening that utilities and policy-makers are acknowledging the risks associated with increased greenhouse gas emissions, yet, each utility uses a different approach.

NWEC Recommendation: Given the magnitude of the impact of the costs and risks associated with mitigation of CO2 emissions from fossil fuel power plants and the existing recognition of the climate change problem and significant state and local efforts to reduce emissions, it is appropriate for the rule to call out this particular risk factor and provide guidance to utilities on how they should account for these costs and risks in evaluating resources.

(2)(c) The lowest reasonable risk, including but not limited to, an assessment of risk associated with market and fuel volatility of generating and demand-side resources and of system reliability, greenhouse gas emissions and other environmental externalities and operational risks.

(3)(b) Assessment of efficiency and load management

The assessment of efficiency should be applied to the distribution, transmission and generation resources of the utility. A narrow assessment of end use efficiency limits the opportunity to make efficiency improvements throughout the system and to deploy smart grid and other advanced technologies. In addition, peak load management is becoming a more critical issue for utilities. Fuel switching should be added as an opportunity to reduce peak load in the same analysis as other load management programs.

NWEC Recommendation: See the following additions -
An assessment of technically feasible improvements in the efficient generation, transmission, distribution and use of electricity, including load management, fuel switching and other advanced technologies, as well as an assessment of currently employed and new policies and programs needed to obtain the efficiency improvements.

(3)(c) Assessment of generation technologies

Removing the long list of resources to be evaluated makes sense as the rule should not create a laundry list of technologies to be evaluated. That said the predisposition of utility resource planners is toward generating resource with which they are familiar. Renewable energy,

[1] See http://www.climatesolutions.org/pages/eNewsbulletins/March2003/MoneyTalks.htm

combined heat and power technologies and smaller scale clean distributed generation are resources that may be new to the utility and therefore may receive less analytic evaluation if any.

NWEC Recommendation: See the following addition -
An assessment of technically feasible generating technologies, including the broad range of renewable energy resources, combined heat and power and clean distributed generation.

We also recommend including the definition of renewable resources in the rule. Use the definition in current statute, RCW 19.29A.010.

(3)(d) Comparative evaluation of resources and cost-effectiveness

The rule should further define cost-effectiveness and support the consideration of environmental externalities in determining cost-effective resources. When calculating the cost-effectiveness of energy efficiency measures it is important to include environmental offset benefits of these investments. Some utilities use the provision in the 1980 Northwest Power Act which applies a 10% environmental adder to the total avoided cost for efficiency measures. The Northwest Power and Conservation Council's Regional Technical Forum (RTF) includes a carbon offset benefit of $15/ton (or 6 mills) when it calculates the cost-effectiveness of energy efficiency measures.

NWEC Recommendation: Explicitly add either of the examples cited above to further clarify how the comparative analysis of resources should be done.

As mentioned previously, renewable generation can be a new technology for some utilities and as such utility staff are less familiar with the array of factors to be considered when comparing renewable resources against each other and to other generation and demand side resources. The rule should ensure that all costs and benefits associated with a resource are considered.

NWEC Recommendation: The following sentence added -
Comparative evaluation should include resource integration costs, tax credits, risk factors, associated transmission and distribution costs and benefits.

(3)(e) Integration of resources and forecasts

How utilities incorporate efficiency and demand-side programs into their resource modeling can make an appreciable difference in the final portfolio mix. For example, if a utility treats energy savings as a resource rather than simply as a decrement to the load forecast it will allow a broader set of measures to be included in the portfolio of options.

NWEC Recommendation: Add to (3)(e) the following sentence -
The efficiency resource should be compared with supply resources in addition to/or as an alternative to a reduction in the demand forecast.

NWEC Recommendation:
The integration of the demand forecasts and resource evaluations into a long-range integrated resource plan describing the mix of resources and efficiency measures that will meet current and

future needs at the lowest reasonable cost and lowest reasonable risk to the utility and its ratepayers.

(7) Compliance

We strongly support the proposal to have a public hearing after each IRP is submitted to the Commission.
In Order 89-507 the Oregon Public Utilities Commission states that when a plan is acknowledged by the Commission then it will be used in future proceedings. However, the Commission has the authority to not acknowledge or provide limited or conditional acknowledgement of an IRP. If such an outcome occurs, the utility takes on more risk of not being allowed to recover all resource costs. However, acknowledgement also provides motivation for the utility to carefully construct the IRP and consider stakeholder input throughout the process to ensure full acknowledgement by the Commission.

NWEC Recommendation:
Include stronger language that raises the importance of the IRP in both the eyes of the utility and the Commission.

Gas Least-Cost Planning (WAC 480-90-238)

Many of the Coalition's comments made in regards to the electric rules apply to the proposed gas rules and we recommend their consideration in your review of the gas least-cost planning rule. In addition to our electric rule comments we have the following two questions relating to the proposed gas rule:

(2)(b) Lowest reasonable cost

We ask the Commission to clarify what is meant by "demand-side uncertainties."

(3)(d) Comparative analysis

We ask the Commission to explain why it would seek an analysis of gas purchasing options without taking into consideration supply and market risks? Given the volatility in gas markets, risk analysis has become a vital component of both utility planning and Commission and stakeholder evaluation of resource planning.