

Agenda Date: August 31, 2005
Item Numbers: C1 and C2

Dockets: UE-030311 and UG-030312

Subject: Rulemaking to Consider Changes to WAC 480-100-238, Least Cost Planning (Electric Companies) and WAC 480-90-238, Least Cost Planning (Gas Companies)

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Recommendation:

Direct the Secretary to file a Notice of Proposed Rulemaking (CR-102) with the Office of the Code Reviser in Dockets UE-030311 and UG-030312 proposing changes to WAC 480-100-238 and WAC 480-90-238, rules relating to least cost planning (LCP) by electric and gas companies.

Background:

On April 15, 2003, the Commission filed Preproposal Statements of Inquiry, CR-101, with the Code Reviser, opening two rulemakings that would consider possible changes to WAC 480-100-238 and WAC 480-90-238, rules relating to least cost planning (LCP) by electric and gas companies.

The intent of the rulemakings was to analyze: (1) whether the current rules provide the results that they were originally intended to achieve, (2) whether the rules are consistent with laws, with appropriate and lawful policies, and with the advances in technology in the electric and gas industries, and (3) some specific planning issues, such as risk and uncertainty, the role of demand management and of resource diversity, planning horizons and filing deadlines, rule process and enforcement issues, the relationship of

least-cost plans to Commission review of specific generation, and appropriate uses of least-cost plans.

The Commission held two stakeholder workshops in June 2003 and June 2005, and solicited two rounds of written comments from stakeholders. The Commission received comments from Avista Utilities, Cascade Natural Gas, Climate Solutions, the Cogeneration Coalition of Washington (CCW), the Department of Community Trade and Economic Development (CTED), Industrial Customers of Northwest Utilities (ICNU), the Natural Resources Defense Council, Northwest CHP Advocates, the Northwest Energy Coalition (NWECC), the Northwest Independent Power Producers Coalition (NIPPC), Northwest Natural Gas, PacifiCorp, Public Counsel, Puget Sound Energy, the Renewable Northwest Project, and Mr. Andy Silber. Stakeholders provided suggestions about several issues in the current language.

The rule language in Attachment A and Attachment B reflects the Commission's consideration of these stakeholder comments. Many of the suggestions were non-controversial and have been incorporated into the proposed language. Other suggestions reflected differences of views among stakeholders regarding the scope and techniques to be used in utility resource planning and the appropriate use of these plans in the management and regulation of the utilities.

The most significant issues raised by stakeholders during the process, and the Commission's response in developing proposed rules, are set out below:

1. Should considerations of risk, including future potential externalities such as an emission cost for carbon dioxide, be more explicitly required in utilities' integrated resource plans (IRPs)?

Response: Yes. In the definition of lowest reasonable cost, the proposed rules incorporate a wider definition of risk that also takes into account the cost of risks associated with environmental effects including emissions of carbon dioxide. However, the new language does not assign values to environmental externalities. A rule is not the appropriate place to include such a specification.

2. How wide a net of resource alternatives should utilities assess in their IRPs?

Response: The proposed language requires the utilities to assess a wide range of commercially available generating technologies, as well as commercially available conservation. The proposed rules do not adopt the suggestion of some stakeholders that

other, not yet commercially available, resources be included in the analysis. Doing so would increase the complexity of the planning exercise and could lead to unrealistic plans that ultimately could not be implemented.

3. Should the public participation process be enhanced?

Response: The proposed rules state that consultations with commission staff and public participation are essential to the development of an effective plan. The language retains: (a) the requirement that the work plans prepared by the utilities outline the timing and extent of public participation and (b) the provision that the Commission will hear comment on the plans submitted by the companies at a public hearing scheduled after the utilities submit their plans for review.

4. Should the IRP include transmission and distribution planning?

Response: Yes. The proposed rules incorporate a requirement for transmission and distribution planning. Subsection (3) (d) of proposed WAC 480-100-238 mandates electric utilities to include in their integrated resource plans, at a minimum, an assessment of transmission system capability and reliability. The parallel language in WAC 480-90-238 mandates gas utilities to include an assessment of pipeline transmission capability and reliability and opportunities for additional pipeline transmission resources.

5. Is a long range time horizon of 20 years still appropriate?

Response: Some stakeholders suggested that the 20-year time horizon in the existing rule is arbitrary and in some cases unreasonably long. Other stakeholders supported the time horizon included in the current language. The proposed rules reflect these suggestions and accommodates more options for the time horizon, substituting “at least ten years; longer if appropriate to the life of the resources considered” for the current 20-year provision.

6. Should the Commission take formal action to approve or reject a company’s integrated resource plan or otherwise provide a mechanism for pre-approval of new resources included in integrated resource plans?

Response: The proposed rules do not provide for the Commission to approve plans or to pre-approve resources acquired consistent with those plans. Currently, the Commission acknowledges the least cost plans submitted by electric and gas utilities. Several stakeholders suggested that instead the Commission should approve or reject the resource plans submitted by the companies. Since the utilities invest money and time preparing the plans previous to resources acquisition, an approval or disapproval

of the plans by the Commission would send a sign whether the companies are heading in the right direction. Other commenters believe that the approval of plans would inappropriately relieve utilities of their responsibility for prudent management of the resource acquisition process. They contend that, with multiple scenarios and risk elements, the resource plans are not sufficiently specific to allow for an up-or-down approval action and that it is often not possible to determine the consistency of any given resource acquisition with a utility's integrated resource plan. Integrated resource planning is, in their view, necessary but not sufficient to ensure that resource acquisitions are prudent.

The language in the proposed rule reflects the Commission's view that the case for approval of or based upon integrated resource plans has not yet been made. There will be opportunities for that case to be made as the Commission moves forward with the revised resource planning rules, and it will remain the case that the Commission will consider the quality of the planning process whenever it is asked to consider the prudence of specific resource acquisitions.

Conclusion:

The attached rule language, which reflects the resolution of issues discussed above, should be published as proposed rules so that the Commission may obtain stakeholder comments for use in deciding whether to adopt these rules.

Attachment A

Attachment B

Attachment A

AMENDATORY SECTION (Amending Docket No. UE-990473, General Order No. R-482, filed 5/3/01, effective 6/3/01)

WAC 480-100-238 (~~Least cost~~) Integrated resource planning.

(1) Purpose (~~and process~~). Each electric utility regulated by the commission has the responsibility to meet its (~~load~~) system demand with a least cost mix of generating resources and (~~improvements in the efficient use of electricity.~~ Therefore, a "least cost plan" must be developed by each electric utility in consultation with commission staff. Provision for involvement in the preparation of the plan by the public will be required. Each planning cycle must begin with a letter to the utility from the commission secretary. The content and timing of and reporting for the least cost plan and the public involvement strategy must be outlined in a work plan developed by the utility after consulting with commission staff.) conservation. In furtherance of that responsibility, each electric utility must develop an "integrated resource plan."

(2) Definitions.

(~~"Least cost plan"~~) (a) "Integrated resource plan" or "plan" means a plan describing the mix of generating resources and (~~improvements in the efficient use of electricity~~) conservation that will meet current and future needs at the lowest reasonable cost to the utility and its ratepayers.

(b) "Lowest reasonable cost" means the lowest cost mix of resources determined through a detailed analysis of a wide range of commercially available sources. At a minimum, this analysis must consider resource cost, market-volatility risks, demand-side resource uncertainties, resource dispatchability, resource effect on system operation, the risks imposed on ratepayers, public policies regarding resource preference adopted by Washington state or the federal government and the cost of risks associated with environmental effects including emissions of carbon dioxide.

(c) "Conservation" means any reduction in electric power consumption that results from increases in the efficiency of energy use, production, or distribution.

(3) (~~Each electric utility must submit to the commission on a biennial basis a least cost plan that~~) Content. At a minimum, integrated resource plans must include:

(a) A range of forecasts of future demand using methods that examine the (~~impact~~) effect of economic forces on the consumption

of electricity and that address changes in the number, type((7)) and efficiency of electrical end-uses.

(b) An assessment of ~~((technically feasible improvements in the efficient use of electricity,))~~ commercially available conservation, including load management, as well as an assessment of currently employed and new policies and programs needed to obtain the ((efficiency)) conservation improvements.

(c) An assessment of ~~((technically feasible))~~ a wide range of commercially available generating technologies ((including renewable resources, cogeneration, power purchases from other utilities, and thermal resources (including the use of combustion turbines to utilize better the existing hydro system))).

(d) An assessment of transmission system capability and reliability.

(e) A comparative evaluation of the cost of generating resources (including transmission and distribution) and improvements in ((the efficient use of electricity based on)) conservation using a consistent method((, developed in consultation with commission staff, for calculating)) to calculate cost-effectiveness.

~~((e) The))~~ (f) Integration of the demand forecasts and resource evaluations into a long-range (e.g., ((twenty year) least cost)) at least ten years; longer if appropriate to the life of the resources considered) integrated resource plan describing the mix of resources that will meet current and future needs at the lowest reasonable cost to the utility and its ratepayers.

~~((f))~~ (g) A short-term ((e.g., two year)), two-year plan outlining the specific actions ((to be taken by)) the utility ((in implementing the long-range least cost)) will take to implement its integrated resource plan.

(h) A report on the utility's progress towards implementing the recommendations contained in its previously filed plan.

~~(4) ((All plans subsequent to the initial least cost plan must include a progress report that relates the new plan to the previously filed plan.~~

~~(5))~~ Timing. Unless otherwise ordered by the commission, each electric utility must submit a plan within two years after the date on which the previous plan was filed with the commission. Not later than twelve months prior to the due date of a plan, the utility must provide a work plan for informal commission review. The work plan must outline the content of the integrated resource plan to be developed by the utility and the method for assessing potential resources.

(5) Public participation. Consultations with commission staff and public participation are essential to the development of an effective plan. The work plan must outline the timing and extent

of public participation. In addition, the commission will hear comment on the plan at a public hearing scheduled after the utility submits its plan for commission review.

(6) The ~~((least cost))~~ commission will consider the information reported in the integrated resource plan(~~(, considered with other available information, will be used to)~~) when it evaluates the performance of the utility in rate and other proceedings(~~(, including the review of avoided cost determinations, before the commission)~~).

Attachment B

AMENDATORY SECTION (Amending Docket No. UG-990294, General Order No. R-484, filed 5/3/01, effective 6/3/01)

WAC 480-90-238 (~~Least cost~~) Integrated resource planning.

(1) Purpose (~~and process~~). Each natural gas utility regulated by the commission has the responsibility to meet system demand (~~at the least cost to the utility and its ratepayers. Therefore, a "least cost plan" must be developed by each gas utility in consultation with commission staff. Provision for involvement in the preparation of the plan by the public is required. Each planning cycle will begin with a letter to the company from the commission secretary. The content and timing of and reporting for the least cost plan and the public involvement strategy must be outlined in a work plan developed by the utility after consulting with commission staff.~~) with the least cost mix of natural gas supply and conservation. In furtherance of that responsibility, each natural gas utility must develop an "integrated resource plan."

(2) Definitions.

(~~"Least cost plan"~~) (a) "Integrated resource plan" or "plan" means a plan describing the mix of resources and strategies for purchasing, transporting, storing and delivering natural gas and (~~improving the efficiencies of gas use~~) conservation that will meet current and future needs at the lowest reasonable cost to the utility and its ratepayers (~~consistent with needs for security of supply~~).

(b) "Lowest reasonable cost" means the lowest cost mix of resources determined through a detailed analysis of a wide range of commercially available sources. At a minimum, this analysis must consider resource costs, market-volatility risks, demand-side resource uncertainties, the risks imposed on ratepayers, resource effect on system operations, public policies regarding resource preference adopted by Washington state or the federal government, the cost of risks associated with environmental effects including emissions of carbon dioxide, and the need for security of supply.

(c) "Conservation" means any reduction in natural gas consumption that results from increases in the efficiency of energy use, production, or distribution.

(3) (~~Each gas utility must submit to the commission on a biennial basis a least cost plan that~~) Content. At a minimum, integrated resource plans must include:

(a) A range of forecasts of future natural gas demand in firm and interruptible markets for each customer class (~~((for one, five, and twenty years using methods))~~) that examine the (~~((impact))~~) effect of economic forces on the consumption of natural gas and that address changes in the number, type(~~(τ)~~) and efficiency of natural gas end-uses.

(b) An assessment (~~((for each customer class))~~) of (~~((the technically feasible improvements in the efficient use of gas,))~~) commercially available conservation, including load management, as well as (~~((the))~~) an assessment of currently employed and new policies and programs needed to obtain the ((efficiency)) conservation improvements.

(c) An (~~((analysis for each customer class of gas supply options, including:~~

~~(i) A projection of spot market versus long term purchases for both firm and interruptible markets;~~

~~(ii))~~ assessment of commercially available gas manufacturing (as in coal to gas) and production technologies.

(d) An (~~((evaluation))~~) assessment of ((the)) opportunities for using company-owned or contracted storage or production((τ)).

~~((iii) An analysis of prospects for company participation in a gas futures market; and~~

~~(iv))~~ (e) An assessment of (~~((opportunities for access to multiple))~~) pipeline ((suppliers or direct purchases from producers)) transmission capability and reliability and opportunities for additional pipeline transmission resources.

~~((d))~~ (f) A comparative evaluation of the cost of natural gas purchasing strategies, storage options and improvements in ((the efficient use of gas based on)) conservation using a consistent method((, developed in consultation with commission staff, for calculating)) to calculate cost-effectiveness.

~~((e))~~ (g) The integration of the demand forecasts and resource evaluations into a long-range (e.g., (~~((twenty year) least cost))~~) at least ten years; longer if appropriate to the life of the resources considered) integrated resource plan describing the ((strategies designed to)) mix of resources that will meet current and future needs at the lowest reasonable cost to the utility and its ratepayers.

~~((f))~~ (h) A short-term (~~((e.g., two year))~~), two-year plan outlining the specific actions ((to be taken by)) the utility ((in implementing the long-range least cost)) will take to implement its integrated resource plan.

(i) A report on the utility's progress towards implementing the recommendations contained in its previously filed plan.

(4) (~~((All plans subsequent to the initial least cost plan must include a progress report that relates the new plan to the~~

~~previously filed plan.~~

~~(5)) Timing. Unless otherwise ordered by the commission, each natural gas utility must submit a plan within two years after the date on which the previous plan was filed with the commission.~~

~~Not later than twelve months prior to the due date of a plan, the utility must provide a work plan for informal commission review. The work plan must outline the content of the integrated resource plan to be developed by the utility and the method for assessing potential resources.~~

~~(5) Public participation. Consultations with commission staff and public participation are essential to the development of an effective plan. The work plan must outline the timing and extent of public participation. In addition, the commission will hear comment on the plan at a public hearing scheduled after the utility submits its plan for commission review.~~

~~(6) The ((least-cost)) commission will consider the information reported in the integrated resource plan, ((considered with other available information, will be used to)) when it evaluates the performance of the utility in rate and other proceedings ((before the commission)).~~