

Agenda Date: October 29, 2015
Item Number: A1

Docket: UE-151694
Company: Pacific Power & Light Company

Staff: Jeremy Twitchell, Regulatory Analyst

Recommendation

Issue an order in Docket UE-151694 granting Pacific Power & Light Company's petition for certain waivers of WAC 480-107, subject to the condition that Pacific Power & Light Company shall incorporate a market reliance risk assessment into its 2017 Integrated Resource Plan.

Background

WAC 480-107-015(3)(b) requires that when a utility files an integrated resource plan (IRP) with the Washington Utilities and Transportation Commission (commission) that identifies a capacity need within the following three years, the utility must file a proposed request for proposals (RFP) and accompanying documentation with the commission within 135 days.

Pacific Power & Light Company (Pacific Power or company) filed its 2015 IRP with the commission on March 31, 2015. The company filed this petition on August 14, 2015, which requests a waiver of certain RFP requirements within WAC 480-107 based on the characteristics of the resources that the company selected in its 2015 IRP.

The company requested and received the same waivers following its 2011 and 2013 IRP filings.

Discussion

Pacific Power's 2015 IRP selected a preferred portfolio that would meet the company's identified resource needs in the next three years with market purchases, conservation, and solar.¹ This waiver petition requests that the commission allow the company to forego the formal RFP process required by 480-107-015 and acquire the identified resources through alternative, more efficient means.

Pacific Power requests the following waivers:

- WAC 480-107-015(3)(b), which requires the RFP, in relation to the company's selected conservation resources. The company argues that conservation acquisition is already governed through existing tariffs and the commission's oversight of the company's conservation program under the Energy Independence Act.²

¹ Pacific Power & Light Company's 2015 IRP, page 196.

² Pg. 18-19 of the company's waiver petition.

- WAC 480-107-015(3)(d), which requires sealed bids, in relation to the company's selected market purchases. The company argues that sealed bids are not supported by the market solicitation procedures used within the Western Electric Coordination Council (WECC).³
- WAC 480-107, in its entirety, in relation to the company's selected solar resources. The company argues that the solar resources in its IRP were selected to comply with Oregon's solar requirements, and that the cost of those resources will be directly assigned to Oregon customers.⁴

Staff identified a number of initial concerns with the company's petition, and was hesitant to recommend approval of these waivers for a third consecutive IRP cycle. The RFP requirement in WAC 480-107 serves two key purposes – acting as a check on the company's assumed resource cost inputs in the IRP and providing updated resource costs to inform the company's next annual avoided cost filing.

To better understand Pacific Power's procedures for setting the cost inputs for the IRP, staff visited the company on September 16, 2015. The company shared the detailed results from their independent consultant, Black & Veatch, who in 2012 identified costs associated with a wide range of generation resources for use in the 2013 IRP. For the 2015 IRP, the company updated the 2013 IRP's cost estimates by reaching out directly to developers, including GE, Mitsubishi, Wartsila, and various wind and solar developers. Based on the information presented, staff is comfortable that Pacific Power's cost inputs for the 2015 IRP were developed using independent and current information, and in general represent reasonable estimates of the costs associated with new resources.⁵

During the staff visit, Pacific Power also walked staff through its last all-source RFP, which was issued in 2012 for a resource on the company's eastern system. The company did not acquire a resource as a result of that RFP, due to changing load forecasts that reduced the company's needs. Had the RFP been followed through to completion, Pacific Power estimates that it would have taken 16-18 months to acquire the proposed resources. The company received eight bids, which cost the bidders an average of about \$500,000 to submit and required several months of employee time for the company to review.

Based on the costs and timetable associated with an all-source RFP process, staff agrees with Pacific Power that requiring an all-source RFP would not be in the public interest at this time. While it is true that an RFP may further improve the accuracy of the company's cost inputs, the improvement is unlikely to be substantial, and would come at significant costs that would largely be borne by ratepayers. Furthermore, given the timetable for an all-source RFP, the company would likely not receive responsive information in time to inform the 2017 IRP.

³ Pgs. 8-10 of the company's waiver petition.

⁴ Pgs. 19-20 of the company's waiver petition.

⁵ Staff still questions some of the company's cost assumptions regarding storage technologies, and will continue to work with the company in that area.

However, staff remains concerned by the company's ongoing reliance on market purchases, particularly in light of plant retirements in 2020 that are projected to leave the Northwest short on capacity in 2021.⁶ According to its IRP, Pacific Power plans to purchase 769 MW of capacity at hubs in the Pacific Northwest to meet its load in 2021. Staff is somewhat less concerned due to the seasonal peak mismatch. The Northwest region experiences peak electric demand in the winter, whereas Pacific Power would primarily be making market purchases in the summer. Looking to the future, there are increasing summer peaks in the Northwest which may erase this seasonal peak mismatch, if the Northwest trend continues.

But when staff asked the company to identify its projected market reliance at the winter peak, when the region faces a potential shortfall, the company could not do so. What remains, then, is a region that faces a likely capacity shortfall in 2021, a utility that plans to heavily rely on the market in 2021, and no serious analysis of the potential risks associated with that strategy. The Western Resource Adequacy Evaluation that Pacific Power presented in Appendix J of its 2015 IRP is, in staff's opinion, inadequate and now outdated. Based on recent analyses that project a regional shortfall, staff strongly believes that any resource plan that relies on market purchases must account for the risk associated with that strategy.

Staff has discussed its proposed condition with the company, and the company has expressed a willingness to accept it. This analysis is an important first step in more clearly identifying the company's resource needs in 2021 and beyond. It will also generate a more reasonable projection of future market costs. Requiring the company to consider other resources right now through an all-source RFP process won't accomplish much if those resources are compared against an artificially low-cost market alternative.

The company and staff have already begun discussing potential approaches for the market risk assessment, and will continue to work together throughout the 2017 IRP process.

Conclusion

Based on the costs and lengthy timetable associated with an all-source RFP, staff does not believe that an all-source RFP would be in the public interest at this time, and therefore recommends that the commission grant Pacific Power's waiver petition. Given the potential for regional market shortfalls in 2021 and beyond, staff recommends that the commission only approve the petition on the condition that the company assess the risk associated with its market resource strategy in its 2017 IRP.

⁶ The Northwest Power and Conservation Council's May 2015 Pacific Northwest Power Supply Adequacy Assessment for 2020-21 identified a need for 1,150 MW of new gas-fired capacity to maintain regional reliability targets. Available at <https://www.nwcouncil.org/energy/powersupply/2015-05/>.