STATE OF WASHINGTON

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

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November 24, 1992

Mr. Richard Sonstelie
Chief Executive Officer
Puget Sound Power & Light
P.O. Box 97034
Bellevue, WA 98009-9734

Re: Puget Power 1992-1993 Least Cost Plan, Docket No. UE-910151

Dear Mr. Sonstelie:

We have reviewed Puget Power's 1992-1993 Least Cost Plan, as well as the written and oral comments made by other interested parties. In this letter we accept the company's plan and provide our reactions to the evolving least cost planning process at Puget Power.

Washington Administrative Code (WAC) 480-100-251 defines least cost planning for electric utilities regulated by the Commission, and establishes two important requirements. First, it requires each utility to assess its future loads, and the options available to meet those loads; and to undertake to acquire the mix of resources necessary to meet those loads at the lowest cost to its customers, given appropriate levels of reliability. This responsibility is ongoing: the utility's success in achieving the "least cost" mix is monitored in several forums, most notably in general rate cases.

Second, each utility is required to report the results of this planning process every two years in a document known as the "least cost plan," which is prepared in consultation with the public and Commission staff. The filed document is essentially a snapshot of the utility's plan at a given moment in time. The Commission does not "approve" plans filed under WAC 480-100-251. However, in previous plan filings, we made general comments about some of the major questions raised by the filing utility and by interested persons. This letter should not be taken either as an endorsement or condemnation of any element of the plan.

The least cost plan must contain six elements: a range of forecasts of future demand, incorporating the impacts of a range of reasonable variables; an assessment of technically feasible improvements in electricity use; an assessment of technically feasible supply options; an evaluation of these assessments with regard to cost-effectiveness; and using this information to develop 2 and 20 year plans for meeting current and future resource needs at lowest cost to consumers. Also, a progress report on the prior least cost plan must be included.

Puget's 1992-1993 Least Cost Plan contains these elements, and meets the requirements of WAC 480-100-251.

OVERVIEW

Once again, along with other commenters, we noted the amount of effort and overall high quality of Puget's plan. The company has presented necessary information concisely, in non-technical language. Individual elements of the plan stand alone well, and we found tables and graphs easy to read. We appreciate the company's efforts to make underlying assumptions explicit.

Puget's aggressive pursuit of demand side management through conservation is consistent with the intent of least cost planning principles. The plan clearly identifies general system goals for savings, and specific goals, particularly in the residential sector, to which progress can be tracked. The plan also identifies the savings associated with reduced need for expansion of transmission and distribution facilities, as well as generation, if demand is reduced. We look forward to similar progress in the industrial and commercial sectors, and to adjustment of savings estimates with actual savings, in future plan data.

One area that needs additional clarification is the presentation of the short and long term plans. Although the company goes into detail on elements of the forecast and the resource plan, it is not clearly stated 1) what the specific components are of the short and long term plans nor 2) that this mix of resources is in fact least cost, and why. We believe that a clear demonstration of the cost-effectiveness of conservation programs, both for participating ratepayers and ratepayers in general is called for by the least cost planning process. Such a presentation would best meet the intent of WAC 480-100-251 (2) (e) and (f), and provide a clearer picture of the company's direction, particularly for comparison in subsequent plans and rate cases.

We would like to single out the company's handling of supply side options as an example of a strength of this plan. The company has developed a broad spectrum of supply side options, including existing and emerging resource types, and a description of benefits, drawbacks, and risk in conjunction with each option. The company's pursuit of risk minimization, especially with regard to non-utility generation contracts, balances least cost and least risk criteria well. The Sudden Loss of Resource scenario is a good exercise and is consistent with the Share the Shortage effort and the need for a plan to manage emergencies.

FUEL SWITCHING AND CO-GENERATION

The company's interest in natural gas as a method of directly supplying retail customers may prove worthwhile in meeting overall goals of flexibility and least cost. However, any cost estimate must include full costs, risks and other factors for both the company and the ratepayers - for example, availability of pipelines or the cost to the ratepayer of conversion. We encourage Puget to proceed with caution on this issue and specifically to consider total cost issues. These would include impact on consumers, impact on transmission, distribution and supply, impact on Puget's rate components, and cost effectiveness versus increased conservation measures.

Puget is actively pursuing co-generation as a non-utility supply source, on the grounds that it may have several benefits: more efficient use of existing waste material or excess heat and other resources, reducing subsequent environmental impact. While the opportunities for exploiting co-generation appear large, the least cost approach must direct the pace at which Puget proceeds in this direction, particularly until more and better data are available on specific processes and projects. Again, of particular concern here are costs essential but external to Puget's production. These might include the share of costs of building a garbage incinerator borne by garbage ratepayers or county taxpayers. Should these costs exceed alternatives (such as a landfill), the project is not feasible because it is not cost-effective.

RISK

Understanding and quantifying the risk involved in both the load forecast and resource availability and price on the supply side is an imperfect and evolving area, and Puget has done well generally in illustrating where risks are higher or lower. Appropriate risk allocation between ratepayers and shareholders is an issue that would benefit from further examination, as the company moves towards less emphasis on direct generation and more on contracted resources and DSM. We believe that the company should continue to work with the financial markets and rating companies to inform them how well they are managing this transition and perceived risks. This should help to diminish uncertainty and preclude increases in the cost of capital. In general, pursuing a least cost strategy should help to control the company's cost of capital.

EXTERNALITIES

The Governor's Order 90-06 mandated that the Energy Office conduct a study and make recommendations on the environmental costs of energy development. That study was completed in June 1992, after the submission of this plan. For lack of better available information, Puget accounted for this impact broadly by giving a 10% price credit to conservation and renewable resources. Commenters noted that this method needs to be refined and supported with actual information as available. We hope that Puget will work with Commission staff and others to further refine these estimates.

SUMMARY

In general, these comments represent refinements to the current plan and areas of future effort, rather than current deficiencies. We also expect to see Puget include information and calculations that will efficiently link the least cost planning process, the general rate case, and the resource bidding process with regard to timing, information presentation and tracking, and staff effort. The rate case should be clearly supported by the least cost plan where possible; where the two diverge, an explanation should be provided.

We feel that Puget has contributed greatly to the evolution and refinement of the least cost planning process. The company appears to have made an effort to integrate the principles of least cost planning into management practices. We would also like to note the good use Puget has made of public participation in its planning efforts. At the same time, it is important to recognize that this plan is ultimately the product of the company and reflects the company's judgment and direction. We hope that Puget's future plans will continue to reflect the level of effort and quality of work in this plan, while refining areas of current uncertainty as new information becomes available.

Sincerely,

Sharon L. Nelson

Sharon L. Nelson
Chairman

Richard D. Casad
Commissioner

A. J. "Bud" Pardini
Commissioner