

**BEFORE THE WASHINGTON UTILITIES AND TRANSPORTATION
COMMISSION**

In the Matter of

Least Cost Planning Rulemaking,
WAC 480-90-238, 480-100-238

Notice of Proposed Rulemaking (CR
102).

Docket Nos. UE-030311 and UG-
030312

COMMENTS OF PUBLIC
COUNSEL (CR 102 Phase)

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September 28th, 2005

Public Counsel files these comments in response to the Commission's Proposed Rules (CR102) and the Notice of September 9, 2005.

I. INTRODUCTION

We appreciate the opportunity to offer these comments. Our comments relate to proposed rules WAC 480-90-238 and 480-100-238 (cited as "90-238" and "100-238") as released on September 9, 2005 and filed under dockets UG-030312, and UE-030311, respectively. The two proposed rules relate to the development of Integrated Resource Plans (IRPs). We anticipate commenting at a future time on the related docket UE-030313 regarding utility purchases of energy and conservation via Requests for Proposal (RFPs.)

II. OVERVIEW OF COMMENTS REGARDING PROPOSED RULES

Public Counsel believes several of the elements in the proposed rules are strongly in the public interest and supports Commission adoption of the rules. In particular, CO2 mitigation costs are a well established reality as demonstrated by the premiums the market now places on assuming the risk of CO2 mitigation.

There are several elements in the proposed gas and electric rules, however, that could be improved to better serve the public interest. Specifically, we recommend modification in the following three areas:

- The proper consideration of risk as separate from cost
- Enforcement of timely IRP Submission
- Establishment of 2-year and 20-year planning horizons

III. SPECIFIC COMMENTS AND RECOMMENDATIONS

A. Inclusion of Monetized Externalities and Possible Regulatory Penalties.

Public Counsel strongly supports the language stating that utilities must consider, “the cost of risks associated with environmental effects including emissions of carbon dioxide” found in the proposed rules at 90-238(2)(b) and 100-238(2)(b). While we advocate for more specific language we commend Commission for embracing the reality of CO2 emissions and other environmental costs. It is not in the long-term public interest for a utility to provide slightly less expensive electricity or natural gas while creating

greater externality costs to ratepayers or society. Ratepayers will benefit if utilities directly address externalities rather than simply shifting around the type of costs the ratepayer faces in a zero sum game. Furthermore, as participants in the IRP rulemaking workshop agreed, the market now explicitly prices CO2 risk. Public Counsel would expect to contest prudence and request disallowance of future CO2 mitigation costs in rates if IRPs and RFP evaluations fail to consider cost risks of CO2 mitigation. Ratepayers should not be held liable for future CO2 mitigation cost that are well recognized in the market but which were not incorporated into utility decision making in the IRP and RFP process.

B. Risk Should Be Addressed Separately From Lowest Reasonable Cost.

Public Counsel strongly supports the explicit requirement to consider, “the risks to ratepayers” found in 90-238(2)(b) and 100-238(2)(b). To make the IRP a useful public document for ratepayers as well as a useful document for guiding a utility in its quest to fulfill its obligation to provide electric and gas service, ratepayers need to have knowledge of an IRP’s effect on their rates specifically and separately from the risks to shareholders. With the existence of automated pass through adjustments in which unmitigated risks are asymmetrically assigned to ratepayers, explicit consideration of the risk for the ratepayer is necessary.

It follows from the need to consider ratepayer risk, and from the recognition of risk as separate from the cost of a particular portfolio of resources, that the idea of risk be established independently of lowest reasonable cost. Unfortunately the word “risk,” has been added to the proposed language at 90-238(2)(b) and 100-238(2)(b) without

specifying how it relates to the concept of lowest reasonable cost that is defined in those paragraphs. There needs to be a clearer distinction between risk and “lowest reasonable cost,” since cost is a scalar describing economic, social or environmental price, while risk is a probability distribution describing chances of multiple future scenarios.

We recommend that the concept of risk be included in the definitions of “Integrated Resource Plan” proposed in 90-238(2)(a) and 100-238(2)(a), as follows:

(a) “Integrated resource plan” or “plan” means a plan describing the mix of generating resources and improvements in the efficient use of electricity that will meet current and future needs at the lowest reasonable cost, and at the most appropriate levels of risk, to the utility and its ratepayers.

Correspondingly, a new definition of risk should be added at 90-238(2)(c) and 100-238(2)(c):

(c) “risk” means the estimated probabilities of an outcome(s).

In 90-238(2)(b) and 100-238(2)(b) the phrases “~~market volatility risk~~” would change to “costs due to risk of market-volatility” and “~~the risk imposed to ratepayers~~” would change to “cost imposed to ratepayers by risks inherent in the IRP.”

Lastly, 90-238(3) and 100-238(3) should each include an additional subparagraph describing the minimum analysis required of ratepayer and investor risk, as follows:

(x) Evaluations of acceptable levels of the risk of price escalation and service interruption to ratepayers, and of sensitivity of the integrated resource plan to variations in the levels of risk.

C. Enforce Timely IRP Submission.

The draft rules eliminate the need for an initiating letter and clearly state a deadline for each plan two years after the prior one. These changes are an improvement and we endorse them.

We recognize that in the CR-101 phase the rule proposals did not provide any specific enforcement mechanism. Because of our concern that the IRP process not lapse into disuse, as it once threatened to do, we repeat our suggestions for enforcement mechanism here and urge the Commission to adopt at least one of the following:

- \$1,000 fine per day late, in accordance with RCW 80.04.380,
- Petitions for power cost adjustments will not be considered until LCP plan is filed,
- No company petition considered until LCP plan filed, and
- Any resource acquisition which occurs when a utility does not have an acknowledged plan in effect would carry a rebuttable presumption of imprudence.

Public Counsel suggests the last enforcement mechanism because the IRP is an essential prerequisite for prudent resource acquisition. The inclusion of this mechanism would be a simple acknowledgement of this fact.

D. An IRP Should Include a Two Year and a Twenty Year Planning Horizon.

Here, as in our past comments, we recommend that the short-term and long-term components of the plan should be defined as having two- and twenty-year horizons with exceptions available on a case-by-case basis and with the option, at the utility's discretion, of having additional timelines.

In addition to the reasons offered in previous comments relating to the benefits of comparability, the two-year horizon allows the utility's IRP to overlap the typical time frame of utility trading floor short-term contract purchases. We submit as Attachment A the demand projections from Northwest Natural Gas Company's 2005 IRP filed March 23, 2005. As the chart demonstrates, the demand projection changed significantly in the short-term two-year time frame. The IRP needs to begin with a point just beyond the horizon of the short-term trading floor so the utility actions of the short-term and long term are synchronized.

In contrast to the ten year horizon suggested parenthetically in the proposed language, the twenty-year horizon is most similar to standard long-term power purchase agreements (PPA), the expected life of a Combined Combustion Gas Turbine, coal plant, or wind plant, and transmission upgrades and expansions. Thus it best encompasses most resources in the candidate portfolio of the IRP.

However, basing the length of the study horizon on the "life of the resource considered" puts the cart before the horse. The appropriate principle parameter is the load-resource balance, which is the anticipated load growth coupled with the discontinuance of existing resources (including long-term power purchase agreements.)

The lives of resources acquired during the long-term planning period will often, in fact, extend far beyond any reasonable planning horizon, more than half a century in the cases of some major capital projects. The trade off between purchasing a three to five year PPA capacity contract to cover peak load versus a long term resources with excess capacity in the near term can only be determined by looking at both the short term (we suggest two-year) horizon and a longer horizon (we suggest twenty-year). Similarly, the only way of knowing if a ten year resource is the lowest reasonable cost at an acceptable level of risk is to include modeling of a time horizon beyond the ten years. The ability to lengthen and shorten the time horizon may lead to time horizons being chosen to include or exclude a significant resource event, skewing the resource-load balance. The use of specific uniform planning horizons commits each utility to a significant and clearly stated plan objective avoiding any of the above irregularities. In addition, our proposal allows a company the opportunity to choose additional time horizons.

Accordingly, we recommend the following changes to the proposed rules (90-238(3)(e), 90-238(3)(f), 100-238(3)(e), and 100-238(3)(f)):

(e) The integration of the demand forecasts and resource evaluations into a long-range ~~(e.g., of a duration appropriate to the life of the resources considered for acquisition)~~ integrated resource plan describing the strategies designed to meet ~~current and future~~ needs during the twenty years following submission of the plan (and a different period justified by the utility) at the lowest reasonable cost to the utility and its ratepayers.

(f) A short-term ~~(e.g., two year)~~ plan outlining the specific actions to be taken by the utility in implementing the long-range integrated resource plan during the two years following submission.

Also, we recommend in order to clarify the rule, removing the explicit definition of the term “plan” as an abbreviation of “integrated resource plan” in 90-238(2)(a) and 100-238(2)(a), because the first use of the word “plan” in 90-238(3)(f) and 100-238(3)(f) does not mean integrated resource plan. Alternatively, the definitions could be left intact and the phrase “short-term plan” replaced with a term not using the word “plan,” such as “short-term strategy” or similar.

IV. CONCLUSION

Public Counsel believes the adoption of the proposed language on C02 is strongly in the public interest. We also recommend Commission add language to explicitly recognize risk as separate from the cost of a particular portfolio of resources. We have proposed language to make that explicit recognition. We have also recommended penalties for failure to timely file an IRP. To assure the time length of the IRP analysis best encompasses the life span of as many resources types as possible and to assure the need for new resource additions is driven by the load-resource balance, we recommend the requirement of two-year and twenty-year planning horizons.