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May 28, 1992

Mr. Paul Curl, Secretary
Washington Utilities and
Transportation Commission
1300 S. Evergreen Park Dr. SW
P. O. Box 47250
Olympia, Washington 98504-7250

Re: Puget Power's Integrated Resource Plan
Docket No. UE-910151

Dear Mr. Curl:

Enclosed are the original and nineteen copies of Staff's Comments on Puget Power's Integrated Resource Plan in the above docket. Copies have been sent to the company and Public Counsel. Copies will be mailed to other commenters and to any person requesting a copy.

Very truly yours,

DONALD T. TROTTER
Assistant Attorney General

DTT:nh
Enc.

Washington Utilities and Transportation Commission
Staff Comments on
Puget Power's Integrated Resource Plan
Docket No. UE-910151
May 26, 1992

This is Puget's third least cost plan (LCP), or integrated resource plan (IRP). The process and the resulting plan have increased in quality with each planning cycle. For the first time, staff believes that, overall, this IRP meets or perhaps exceeds the goals and objectives proposed by staff, and adopted by the Commission, in a 1985 rate case.

The following written comments will address five areas: 1) process; 2) caveats; 3) items unique to Puget's IRP; 4) statements in the IRP that need further documentation and discussion; and 5) observations about future IRPs.

1. Process

In the development of this IRP, Puget convened seven topical meetings with predistributed "white papers". This allowed the Technical Advisory Committee (TAC) to focus on the details of complex issues. The resulting discussion was at an "advanced" level. Additionally, work groups were established on special topics ranging from the involved collaboratives to one time meetings.

In general, the company was responsive to public comment and suggestions.

The end-result is a clear report. Costs of future resources and options available to the company present a vision of the future based on what is known at this time. The several tables

selectively placed throughout the report enhance the reader's understanding.

2. "Caveats"

It is important to emphasize what the IRP is and what it is not. Staff suspects that in the future the Commission will more often see companies propose items for the Commission's consideration with the justification that "it's in the least cost plan".

The IRP is a planning document. As a planning document, it should be fluid in order to incorporate new situations, new data, and a changing utility environment. Because something is "in" or "out" of the IRP should not render new information "secondary". While some parts of the plan are quite specific, with full documentation, other proposed actions are broadly stated, with few details.

This planning document should not substitute for management prerogative. Rather the planning document should represent what is known at a point in time and how the current knowledge impacts Puget's resource acquisition decisions. The company remains responsible for resource acquisition decisions. The IRP provides the Commission a "snap-shot" of what to expect in the coming years. However, the Commission and its staff cannot and should not study and "approve" the plan as if it were at the same level of analysis found in a general rate case review.

Lastly, this is not a corporate strategic plan. Staff recognizes that Puget's plan may be consistent with the company's

corporate goals. The TAC did not (and should not) review and evaluate board room decisions.

3. Items unique to Puget's IRP

There are several items in Puget's IRP that should be highlighted for the nontechnical reader.

1) Puget asserts a need for 1600 aMW of new resources by 2010. (IRP, p. 8) With a current load of 2100 aMW, this represents a 75% increase in resource requirements. Should this materialize, as marginal costs continue to exceed average (or "embedded") rates, there will be severe upward pressure on rates.

2) Of the 1600 AMW, cost-effective demand-side management (DSM) is anticipated to represent 300 AMW. (IRP, p. 9) This is based on current estimates of costs and technology. We have seen major improvements and innovations in DSM in the past decade which, if continued, could reasonably be assumed to make the 300 AMW conservative.

3) Data in the IRP suggests that both price elasticity (responsiveness to price) and DSM programs "work" in reducing kilowatt hour (kwh) consumption. For example, between 1979 and 1985, residential customers reduced consumption by an average of 3000 kwh per customer during this period. (IRP, p. 25) 1979-1985 was a period of electricity price escalation, and when conservation programs were in their infancy.

During a period of no price increases between 1987 and 1990, but more aggressive conservation, there was an average reduction of 600 kwh per residential customer. (IRP, p. 25)

5) Puget's IRP notes that each 100 kwh saved per average residential ratepayer results in a system savings of 8 AMW. (IRP, p. 25) If average residential usage is reduced from the current 12,500 kwh per customer to 10,000 kwh per customer, then 200 aMW would result. This 200 aMW represents a good-sized generating facility such as Puget's recent acquisitions of the Tenaska project or two Sumas projects.

6) New technology will continue to put upward pressure on the demand for electricity. For example, electric vehicles could increase Puget's load by 100 aMW in 2005. (IRP, p. 49)

7) Puget contemplates no nuclear projects in its future at this time. (IRP, p. 54) The company notes that this could change depending on several factors.

4. Several statements in the IRP that need further documentation and discussion

There are several items in this IRP that require further discussion and/or documentation. Unless otherwise specified, staff does not necessarily disagree with the conclusions, but believes that further effort is needed prior to specific regulatory proposals and action.

The following selected statements from Puget's IRP require further elaboration. For the most part, these items were not discussed by the Technical Advisory Committee and therefore the TAC may or may not concur with these statements. We believe that to the extent the items below are problematic, they can be resolved.

* "Conservation still has risk associated with added investment." (IRP, p. 3) "Other risks grow as conservation increases." (IRP, p. 3) "Further evolution in utility regulation is needed to respond to other elements of the Integrated Resource Plan." (p. 3)

Staff believes these statements need clarification. We do not understand them.

* "[Non-utility generation contracts] could potentially result in the down-grading of the company's credit rating... ." (IRP, pp. 10, 13, 38, 63)

Staff is concerned with Puget's ability to explain to the bond rating agencies aspects unique to the Puget's power supply contracts.

* "Resource Diversity Considerations: Regulatory support for resource planning and acquisition" Table 1-1 (IRP, p. 11)

Staff believes this statement needs clarification.

* "Targets [of DSM] in later years may decline because opportunities for cost-effective conservation are expected to decrease." (IRP, p. 34)

Staff believes that this statement is not supported by documentation.

* "Consistent with recommendations from the Technical Collaborative Group, the company determined that programs designed to encourage customer fuel switching are not appropriate at this time..." (IRP, p. 35)

Staff believes the Collaborative group was silent as to the propriety of fuel switching and recommended that this be examined.

* Staff has a different perspective on the majority of discussion regarding environmental externalities. (IRP, p. 47)

* Staff also notes that it would be to Puget's benefit to align the integrated resource planning cycle with that of competitive bidding. It would be appropriate to issue an RFP soon after the IRP is released.

* The Action Plan Summary is presented in tabular form on page 76 followed by short descriptions through page 85. Some of the major conclusions are not descriptive on a stand-alone basis. For example, on page 80:
"Pursue small generation facilities of less than 70 MW."
"Pursue acquisition of high efficiency cogeneration resources."

These descriptions provide the Commission with little information. For example, "pursuit" could range from responding to inquiries on the one hand to personal contact with plant managers (and their corporate headquarters) for all manufacturing facilities meeting certain characteristics on the other. Several items in the action plan have little or no discussion in the body of the report (e.g., rate design, fuel switching, and communication evaluation of DSM).

Again, staff is not suggesting that the company provide a "corporate strategic plan" response as much as an understanding of what these statements mean. The company may wish to incorporate these and other parties' comments into the next plan.

* It should also be noted that the scenarios selected for evaluation in this cycle vary radically from previous LCPs. (IRP, p. 63) An explanation of the selection criteria for scenario analysis would be informative.

Despite the foregoing list, there are numerous areas in which Staff agrees with the company's assessment in the IRP. Two important areas stand out. First, concerns are expressed that changes in natural gas availability can affect future pricing of natural gas-fired projects. (IRP, p. 13) This concern of risk to ratepayers is shared by staff. Second, Puget's acknowledgement that capacity valuation needs further examination is important. (IRP, p. 39)

Finally, staff believes that the "black box" (computer programming) phenomenon has been mostly resolved. In past LCP cycles, concerns have been expressed about access to computer models and results. Staff's experience in this cycle has been positive.

5. Future Least Cost Planning Issues

In each preceding LCP process, staff has proposed a series of suggestions for future improvements. Major incremental improvements were expected.

However, as noted previously, this IRP meets or exceeds the goals and objectives that initiated least cost planning in 1985.

Therefore, we would like to frame the question of "what next with Puget's least cost planning" and provide some of our observations.

Several factors constitute a successful IRP [1]. The key items include:

* pricing resources equally
* disclosing options
* integrating company planning
* showing alternatives
* factoring in uncertainty in loads/resources

While some of these areas require fuller explanation, Puget's IRP meets these criteria well. In this regard, Puget's IRP is successful.

What would constitute a successful <u>fourth</u> plan for Puget? In our view, the major area for improvement would be to implement the several studies referred to in the action plan as well as gain more data from existing programs, and use that data to help guide future decisions.

In many ways, it appears that with this IRP Puget has moved onto a plateau on the learning curve. Incremental improvements in future IRPs will likely be less substantial than in the past and will emphasize refinements.

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[1] The Commission's least cost planning rule, WAC 480-100-251, states these requirements.