

On the UTC web page regarding this rule making process several questions are posed. Here I will address my thoughts on two of them:

1. Should considerations of risk be more explicitly required in utility IRPs?
2. Should the definition of “lowest reasonable cost” include future potential externalities such as an emission cost for carbon dioxide?

My answer to both of these questions is a resounding "Yes", and the reason is the same for both.

One problem with electric utilities is that they are natural monopolies. This problem is dealt with by government regulation or by forming a public utility. An advantage of a market is that it rewards good decisions and punishes bad decisions. So everyone is encouraged to make the best possible decisions and those who don't are removed from the marketplace.

The key to good planning is good assumptions. What is the cost of emitting a ton of CO<sub>2</sub> and other air pollutants? What are natural gas prices going to be in the future? How will new technologies change the landscape in ten years? Currently the utilities can assume anything they like and often these assumptions bear little correlation with reality. One utility modeled the cost of CO<sub>2</sub> at zero, even though most of the industrialized world is working hard to reduce greenhouse gas emissions. Another utility's model had such an unrealistic estimate of the future cost of natural gas that by the time the plan was released the price of natural gas was what they estimated for years down the road.

When their assumptions are wrong the utility managers don't say to the owners (aka stockholders) your dividend is going to be smaller because we messed up. They say to the UTC we need a rate increase because of forces beyond our control. They want the authority to set the assumptions of their models, but they do not want the responsibilities that come from a mistake in their assumptions.

So if the utilities do not want the responsibilities that come with planning, then they should accept the assumptions imposed by those who are taking the risk: the rate payers (and playing the role of The Rate Payers will be the State of Washington). The State would publish a cost for emission of CO<sub>2</sub> and other pollutants, a natural gas price model over the horizon of planning, and other inputs to the planning process. The utilities would be responsible for the things that varied greatly from utility-to-utility, like load growth and transmission constraints. The utility would be responsible for putting together the lowest cost plan under the assumptions outlined by the state.

The other advantage of this approach is that it would provide a mechanism to deal with external costs without imposing taxes. The state should set the cost of emission based on the true cost derived from the best available science. This would include the cost of habitat and human health degradation. Since it would be very difficult to estimate the cost of climate change the full cost of CO<sub>2</sub> mitigation or the cost that the market set in Europe or Japan, where there is serious effort to reduce greenhouse gas emission.