[Service date February 6, 2014]

STATE OF WASHINGTON

UTILITIES AND TRANSPORTATION COMMISSION

1300 S. Evergreen Park Dr. S.W., P.O. Box 47250 • Olympia, Washington 98504-7250

(360) 664-1160 • www.utc.wa.gov

February 6, 2014

Mr. Ken Johnson
Director of State Regulatory Affairs
Puget Sound Energy
10608 NE 4th St.
Bellevue, WA 98009-9734

Re: Puget Sound Energy's 2013 Electric and Natural Gas Integrated Resource Plan Docket UE-120767 & UG-120768

Dear Mr. Johnson:

The Washington Utilities and Transportation Commission (Commission) has reviewed the 2013 Electric Integrated Resource Plan (IRP) filed by Puget Sound Energy (PSE) on May 31, 2013, and finds that it meets the requirements of Revised Code of Washington 19.280.030 and Washington Administrative Code (WAC) 480-100-238 and 480-90-238.

On May 31, 2013, PSE filed its 2013 Electric and Natural Gas IRP with the Commission along with the study of the continued operation of the Colstrip Coal Plant in Montana as required by the Commission in response to PSE's last IRP.[1]

The Commission received approximately 3,000 written comments in response to the IRP, the vast majority of which focused on the Colstrip issue. On October 10, 2013, the Commission held a full-day hearing at its Open Meeting. At this hearing, PSE presented the findings contained in its IRP, and the Commission heard over six hours of public comments. At its Open Meeting on Monday, January 6, 2014, the Commission directed

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[1] *Puget Sound Energy 2011 Electric and Gas Integrated Resource Plan*, Dockets UE-100961 and UG-100960, Attachment: Utilities and Transportation Commission Comments on Puget Sound Energy's 2011 Integrated Resource Plan, at 6 (December 28, 2011). In addition in PSE's last general rate case, the Commission granted a request by the Sierra Club that PSE perform this study. *WUTC v. Puget Sound Energy, Inc.,* Dockets UE-111048 and UG-111049 (*consolidated*), Order 08 ¶¶ 420-25 (May 7, 2012).

me to issue this letter acknowledging that PSE's 2013 IRP complies with WAC 480-100-238 and 480-90-238, and to include attachments with specific comments on the IRP.

Please be advised that this finding does not signal pre-approval for ratemaking for any course of action identified in the IRP. At the time of the Commission's review of a future PSE request to include costs of resources into rates, the Commission will give due weight to the information, analyses and strategies contained in the most recent IRP along with other relevant evidence when determining the prudence of the company's actions.

Because an IRP cannot pinpoint precisely the future actions that will minimize a utility's cost and risks, we expect that the company will update regularly the assumptions that underlie the IRP, pursue additional information, and adjust its operational strategies accordingly.

Attachment A includes specific comments from the Commission regarding the IRP, while Attachment B includes specific comments from the Commission regarding the Colstrip study. As discussed in Attachment B, the Commission expects that any further regulatory deliberations and decisions on the economic viability of the continued operation of the Colstrip plant would not be made in the context of PSE's next IRP.

Commission Staff will provide additional detailed comments as PSE develops its next IRP. PSE should file its next IRP work plan on or before May 31, 2014, and its next Electric IRP on or before May 31, 2015.

Sincerely,

STEVEN V. KING
Executive Director and Secretary

Attachment A - UTC Comments on Puget Sound Energy's 2013 IRP
Attachment B - UTC Comments on Puget Sound Energy's Colstrip Study

EXCERPT OF ATTACHMENT A

Although the overall modeling approach was well developed and executed, certain assumptions and conclusions require further explanation from the Company. For example, PSE's electric analysis relies on an assumption that "sufficient interruptible natural gas pipeline capacity" will be available for peakers (generating plants intended to serve peak load) with oil back-up, but PSE made no attempt to quantify what qualifies as sufficient. Similarly, the Company's analysis of the availability of gas-for-power lacks interaction with the operational flexibility analysis and a clear connection to the gas storage resources selected in the Plan. PSE presented the conclusions of its Colstrip analysis were presented on an aggregate level for all four units, while the results differed significantly between Units 1 and 2 and Units 3 and 4. These instances are representative of several logical gaps throughout the IRP, and as a result, the IRP is not as useful a tool as it could be to help the Company guide its decisions on least cost resource selection.

III. Electric Resources

Load Forecasts

Over the 20-year planning horizon of the IRP, absent the acquisition of demand-side resources, PSE expects peak demand to increase by 1.9 percent per year, from 4,837 MW in 2012 to 7,113 MW in 2033.[1] Accelerated acquisition of demand-side resources keeps demand relatively flat in the early years. PSE anticipates that a system-wide peak capacity deficit of 12 MW will occur in 2017 in the Base Scenario, growing to 100 MW in 2020 and 2,194 MW in 2033.[2]

More specifically, from 2017 on, PSE projects annual load growth of 2.2 percent before accounting for the effects of conservation.[3] The load growth projections from 2017 and beyond are mostly driven by the inputs to the econometric model and are themselves projections of the level of economic growth. For instance, job creation in 2017 is expected to be 0.6 percent higher than employment growth from 1997-2011.[4] Commission also finds little in the way of explanation for how and which underlying inputs change in 2017 to create a higher rate of load growth beyond 2017.

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[1] PSE 2013 IRP, page H-20. PSE includes 2012 in its load forecasts because the forecasts were developed in 2012.

[2] PSE 2013 IRP, page 1-5.

[3] PSE 2013 IRP, pages H-19 and H-21, see also bottom of page H-1.

[4] PSE 2013 IRP, page H-16. The difference between the projected 1.4 percent employment growth and the 0.8 percent employment growth over the last 15 years.

The IRP does not show a need for PSE to acquire additional renewable resources to meet the Renewable Portfolio Standard until 2023, due to PSE's early acquisition of renewable resources and expected banking of Renewable Energy Credits for use in future years. By 2033, the IRP shows a need for 300 MW of renewable energy, probably wind.

Currently, distributed generation (DG) on or interconnected with PSE's distribution system has a cumulative capacity of approximately 39 MW,[5] and the net metering cap will increase by another 11.2 MW starting January 1, 2014. As mentioned above, PSE's IRP identifies a capacity deficit of 12 MW in 2017, growing to 100 MW by 2020, and yet PSE did not explicitly include potential impacts from distributed generation in its load forecasts. Existing DG capacity, let alone expected DG growth, could significantly affect the timing of resource acquisition in the first half of the planning horizon. Similar to modeling DG, PSE should also include in its load forecasts the capacity available from customers on interruptible schedules.

- PSE should provide greater explanation and support of its load growth assumptions in the next IRP.
- The Commission expects PSE to model distributed generation's growth and contribution to meeting peak and energy demand in the next IRP and prior to its next Request For Proposals (RFP).
- PSE should account for interruptible capacity connected to its system when it develops the load forecasts in the next IRP.

During the IRP development process, the Industrial Customers of Northwest Utilities (ICNU) requested information related to the cost impacts of different planning reserve margins. ICNU has reviewed similar information from other utilities and planned to conduct independent analysis and make specific recommendations regarding appropriate margins. PSE agreed to provide that information, but failed to do so. The Commission believes that the type of public participation offered by ICNU is essential to the development of a robust and effective plan. Limiting such participation by failing to respond to reasonable requests for information is unacceptable.

- PSE should improve the transparency of its planning margin analysis. In the 2015 IRP, the Company should develop a process to allow stakeholders to better understand the assumptions, the analysis, and the results of the company's planning margin.

[5] Docket UE-131883, Puget Sound Energy Comments filed November 6, 2013.