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July 24, 2001

Carole Washburn
Executive Secretary
Washington Utilities and Transportation Commission
PO Box 47250
Olympia, WA 98504

RE: In the Matter of Puget Sound Energy's Electric and Gas Least Cost Plan, Docket Nos. UE-992027 and UG-992028

Dear Ms. Washburn:

Public Counsel appreciates the opportunity to comment on Puget Sound Energy's ("PSE" or "the company") 2000 – 2001 electric and natural gas least cost plans. We focus our comments on two concerns with the current plans, and policy concerns for future planning efforts. Recommendations for the Commission to consider are contained throughout the body of the comments in italic text.

I. Concerns with the Current Plans

We note the plans were developed and filed in December of 1999, prior to the unusually volatile and abnormally high prices experienced in both natural gas and electric wholesale markets. The document is essentially a static snapshot of the environment PSE believed itself to be facing at that moment. Unfortunately, a static evaluation has limited value in a dynamic environment such as the current utility industry. Public Counsel believes that utilities such as PSE are faced with a need to do more, rather than less planning, to meet the challenges of the current environment. *Our first recommendation to the Commission is therefore to require PSE to begin its next integrated*

resource planning process, in which we request the Commission to further direct the company to address the issues we identify in the remainder of our comments.

In addition to the static nature of the plans, Public Counsel is concerned that the analytical planning and modeling contained in the plans is not well linked to the two-year action plan. The company spends considerable time describing the issues and challenges it faces in aspects of its business and then leaps to bullet points of actions to pursue. PSE provides little to nothing in the way of guidance as to how those actions follow from the analysis it has preformed, how it evaluated those actions against other possibilities, and how it will prioritize those actions. In many areas it is difficult to find the action items reflected in the discussion of the issues, or to find the issues highlighted by the analysis tied into the action items.¹ In part this is a reflection of the static nature of the document, but in part it is a shortcoming of the underpinnings of PSE's planning process as reflected in the plans. *Our second recommendation is for the Commission to direct PSE to improve the linkage between its analysis of scenarios and the action items contained in the next iteration of the plans.*

II. Policy Concerns for Future Planning

Public Counsel's most serious concern with the plans is the implicit shifting of risk from the company to its customers. PSE shows its desire to push the risk of energy supply onto its consumers in a number of ways. First, the share of the company's electric generation which it anticipates coming from wholesale market purchases under any scenario in which the company retains an obligation serve balloons in the coming years.² Second, the company professes a goal of diversifying its supply within the market purchases it is making by moving to a combination of fixed and market-priced resources. Third, the company chose to divest one of its major generation resources during the period the plans covered. Fourth, the company has moved a significant proportion of its residential customers to a form of pricing in which they bear more responsibility for price changes at different times of day. Fifth, the company went through a long and contentious process with its largest industrial customers focused primarily on each party's role and responsibility for energy supply. Finally, the company states its preference for a power cost adjustment in which customers would shoulder an increasing portion of the risk of power supply price increases. While the Commission has engaged in some after-the fact review of some of these decisions, there has been no review and certainly no public discussion of the underlying presumption that customers ought to bear more responsibility and more risk for their power supply. *Our third*

¹ See for example the discussion and action items around energy supply - electric.

² See Chapter VI – Integrated Resource Modeling

recommendation is for the Commission to evaluate what the appropriate level of risk and responsibility for power supply the utility and its customers should bear, in the context of the utility's obligation to serve under existing Washington law. Such an evaluation might, or might not, best be handled through the least cost planning requirements for each utility individually or in some other forum.

Public Counsel is also concerned with the appropriate allocation of risk and rewards in the natural gas supply area. We note that it has been some time since the Commission examined its policies surrounding gas procurement strategies.³ We further note that over the period covered by PSE's plans, by far the most significant increases in customer utility costs in the state has been from increased gas costs. Finally, we are extremely concerned that the use of natural gas as the fuel of choice for new electric supply will have profound, and as yet, largely unexamined, effects on its price and availability for end-use customers.⁴ *Our fourth recommendation is for the Commission to direct PSE to examine changes in the natural gas supply market and the effects of those changes on the utility's strategy to provide the least-cost supply to its customers.*

There are three additional areas where we believe PSE's next plans should be substantially improved: transmission, conservation acquisition and modeling, and distributed generation. The Commission is well aware of potential changes in the ownership and operation of transmission infrastructure driven by the Federal Energy Regulatory Commission's push for the formation of regional transmission organizations. Additionally, transmission is a critical element of planning for service to loads, as adequate transmission might mitigate the need for generation investments, while inadequate transmission can exacerbate supply constraints. *PSE should be required to address the full range of issues around transmission in its next plans.*

Public Counsel continues to have policy differences with PSE over the appropriate acquisition of conservation, and the theoretical underpinnings for making those investments.⁵ We note the company's plans do not adequately, in our view, incorporate demand-side investments into the company's resource acquisition modeling or strategy, for example, the only mention of demand-side options in the chapter entitled "Integrated Resource Modeling" is to assume the current level of

³ See 1997 UTC policy statement in UG-940778.

⁴ See for example "Convergence: Natural Gas and Electricity in Washington" Washington State Office of Trade and Economic Development, May 2001.

⁵ Our comments on the company's DSM programs over the period covered by these plans reflect those differences

savings going forward.⁶ *The company should be required to integrate supply and demand resources into its evaluation of least-cost supply.*

⁶ PSE 2000-2001 Gas and Electric Least Cost Plan, p 124.

Carole Washburn
Comments on PSE IRP
July 24, 2001
Page 5

Finally, Public Counsel is interested in seeing PSE continue the exploration of distributed generation it began in the current plans. These technologies may well offer the advantages of incremental and flexible resources that PSE believes the wholesale market to offer at significantly less volatility. PSE should be required to examine the feasibility of distributed generation investments.

Public Counsel looks forward to participating in future least-cost planning efforts before the Commission. I will be available at the Commission's special open meeting on July 25, 2001 to answer questions.

Sincerely,

Matt Steuerwalt
Public Counsel Section