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PUGET SOUND ENERGY

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September 28, 2005

Ms. Carole J. Washburn
Executive Secretary
Washington Utilities and Transportation Commission
P.O. Box 47250
Olympia, WA 98504-7250

RE: Least Cost Planning Rulemaking--Docket No. UE-030311

Dear Ms. Washburn,

This filing sets forth the response of Puget Sound Energy, Inc. ("PSE") to the Notice of Opportunity to File Written Comments dated September 9, 2005, in the above-noted docket. PSE appreciates the opportunity to participate in this rulemaking process.

Summary of Suggested Edits

Attached is a version of the proposed electric IRP rules with PSE's suggested edits shown in legislative format. PSE's suggests two types of edits. The first set of edits are designed to tighten up the language by modifying some definitions. These edits may help to clarify and pull together concepts across the entire rule without any policy changes. Explanations for each suggested edit are provided in footnotes.

In addition to these clarifying edits, the Company addresses the new language in Section 3(d). Here, the Commission proposes to add a requirement that the Company assess the "transmission system capability and reliability." This proposed language raises the possibility of conflict between the Commission's IRP rules and the Federal Energy Regulatory Commission ("FERC") Standards of Conduct[1] rules. The added language suggested by the Company (as shown in redline changes) is intended to clarify that it must comply with both federal and state law in developing its IRP. The following paragraphs attempt to provide the reasoning behind PSE's proposed added language to section (3) (d).

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[1] *Standards of Conduct for Transmission Providers,* Order No. 2004, 68 Fed. Reg. 69,134 (Dec. 11, 2003), FERC Stats. & Regs. ¶ 31,155 (2003), *order on reh'g*, Order No. 2004-A, 69 Fed. Reg. 23,562 (Apr. 29, 2004), FERC Stats. & Regs. ¶ 31,161, *order on reh'g*, Order No. 2004-B, 69 Fed. Reg. 48,371 (Aug. 10, 2004), FERC Stats. & Regs. ¶ 31,166, *order on reh'g,* Order No. 2004-C, 70 Fed. Reg. 284 (Jan. 4, 2005), FERC Stats. & Regs. ¶ 31,172 (2004), *reh'g pending* (codified at 18 C.F.R. Part 358) ("Standards of Conduct") (capitalized terms not otherwise defined herein have the meanings assigned to such terms by the Standards of Conduct).

Transmission Issues

Integrated Resource Planning requires a load-serving utility to evaluate the trade-offs between possible combinations of alternative generation and transmission projects and power purchases with the goal of developing an optimal portfolio of those resources to meet the utility's native load obligations. Such planning recognizes that transmission investment and generation investment can be done in a complementary manner and that certain transmission investments have economic benefits to load other than, or in addition to, reliability. From the perspective of the Transmission Provider and its customers, IRP offers additional alternatives to meeting transmission needs in a cost-effective manner.

However, integrated planning requires input from both the utility's resource procurement (where the IRP obligation resides) and transmission functions in an interactive process. This type of interaction is governed by the Standards of Conduct's limitations on interactions between a Transmission Provider's Transmission Function Employees and its resource procurement employees, as employees of a Marketing or Energy Affiliate. The Standards of Conduct stress independent functioning whereas IRP is a collaborative process that requires the exchange of information in a coordinated manner by Transmission Function Employees and resource procurement employees. Vertically integrated utilities are, therefore, concerned that the interactions required in developing an integrated resource plan, and such planning itself, conflict with their Standards of Conduct obligations. However, the inability to effectively engage in integrated resource planning because of the Standards of Conduct impedes effective planning and development of the infrastructure necessary for efficient and cost-effective service.

The conflict with the Standards of Conduct arises because IRP requires a joint effort of a utility's generation and transmission planning groups (frequently with the assistance of the regulatory affairs group and/or other shared functions). The goals of IRP are distinctly different from stand-alone planning processes that might be undertaken by the generation or transmission groups individually. In particular, the root concern addressed by transmission planning, as a stand-alone function, is reliability. IRP, however, also urges transmission investment for the purpose of reducing costs.

With the evolution of energy markets, traditional utility generation planning groups have evolved into more broadly based resource procurement groups, charged with acquiring resources by contract or through organized markets, as well as examining utility-built options. Although the resource procurement group of a vertically integrated utility has the primary objective of meeting retail load, resources acquired by a vertically integrated utility, intended for retail native service, will be used to make wholesale sales from time to time, at minimum for the purpose of balancing generation output and often to optimize the value of the assets for the benefit of the utility's customers. The group involved in planning must either work closely with, or include, personnel who have very current knowledge of energy markets in order to properly evaluate available options and the decision-making process – determining which resources to acquire – is often a decision to enter into a power purchase contract. Thus the line between generation planning and procurement is one that can be blurred or indistinguishable.

From the transmission side, effective integrated resource planning requires input from personnel knowledgeable about the idiosyncrasies of the particular system (often gained through decades of experience in the utility's system control center) as well as the planning and modeling expertise that exists in the planning group or can be obtained from third-party consultants. To be effective in an IRP process, the resource procurement group must work closely with the transmission group to explore alternatives for enhanced power supplies, including new generation, transmission

enhancements and alternate power purchase agreements because the expertise to develop transmission-based economic solutions to load problems generally resides with the Transmission Function Employees.

The Standards of Conduct limit Marketing or Energy Affiliate employees' access to information about the transmission system to information that is available to all customers on OASIS.[2] Employees of the Transmission Provider are similarly prohibited from disclosing information off-OASIS to Marketing and Energy Affiliate employees.[3] Without access to a free exchange of transmission information, a utility cannot meaningfully evaluate all the alternatives necessary to assemble the IRP portfolio and, in particular, cannot fully assess the viability of transmission enhancements as an alternative to generation.

Conclusion

PSE hopes the suggested edits and preceding discussion are helpful as the Commission considers development of the final new IRP rules. If you have any questions regarding these comments or if we can be of any other assistance, please contact me at 425-456-2797.

Sincerely,

Karl Karzmar
Director, Regulatory Relations

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2 18 C.F.R. § 358.5(a).

3 18 C.F.R. § 358.5(b)(1); *see also* 18 C.F.R. § 358.5(b)(7) ("no-conduit" rule).

DRAFT

Draft Integrated Resource Planning Requirements for Electric Utilities

WAC 480-100-238 Integrated Resource Planning. (1) Purpose. Each electric utility regulated by the commission has the responsibility to meet its system demand with a least cost mix of ~~generating~~ energy supply[1] resources and conservation. In furtherance of that responsibility, each electric utility must develop an "integrated resource plan".

(2) Definitions.

(a) "Integrated resource plan" or "plan" means a plan describing the mix of ~~generating~~ energy supply[2] resources and conservation that ~~will~~ is designed to[3] meet current and future needs at the lowest reasonable cost to the utility and its ratepayers.

(b) "Lowest reasonable cost" means the lowest cost mix of resources determined through a detailed analysis of a wide range of commercially available sources. At a minimum, this analysis must consider resource cost, market-volatility risks, demand-side resource uncertainties, resource dispatchability, resource effect on system operation, the risks imposed on ratepayers, public policies regarding resource preference adopted by Washington state or the federal government and the cost of risks associated with environmental effects including emissions of carbon dioxide[4].

(c) "Conservation" means any reduction in electric power consumption that results from increases in the efficiency of energy use~~, production, or distribution~~[5].

(3) Content. At a minimum, integrated resource plans must include:

(a) A range of forecasts of future demand using methods that examine the effect of economic forces on the consumption of electricity and that address changes in the number, type and efficiency of electrical end-uses.

(b) An assessment of commercially available conservation, including load management, as well as an assessment of currently employed and new policies and programs needed to obtain the conservation improvements.

(c) An assessment of a wide range of commercially available generating technologies.

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[1] "Generation" seems to omit power purchase agreements, which PSE believes should be considered. Using the term "Energy Supply" would broaden the scope to include not just purchased power agreements, but also transmission and distribution to cover the entire supply side and be consistent with the proposed gas IRP rule.

[2] Please refer to footnote 1.

[3] "Will" seems too deterministic for a long-term plan, given the significant uncertainties in the energy industry. Softening the tone may provide a more reasonable expectation for the plan.

[4] The list of requirements in 2(b) may be easier to follow if these requirements were broken into sub-sections, such as 2(b)(i) resource cost, 2(b)(ii) market-volatility risks, etc.

[5] This definition seems problematic. Improvements in production/distribution/transmission efficiency do not reduce consumption of electricity, rather reduce the quantity of fuel to make the same quantity of electricity consumed. Dropping language indicated here, in conjunction with the change in footnote 1, above, provides a clearer definition.

(d) An assessment of transmission system capability and reliability consistent with other state and federal regulatory requirements and limitations[6].

(e) A comparative evaluation of the cost of ~~generating~~ energy supply[7] resources (including transmission and distribution) and improvements in conservation using a consistent method to calculate cost-effectiveness.

(f) Integration of the demand forecasts and resource evaluations into a long-range (i.e., at least ten years; longer if appropriate to the life of the resources considered) integrated resource plan describing the mix of resources that ~~will~~ is designed to[8] meet current and future needs at the lowest reasonable cost to the utility and its ratepayers.

(g) A short-term, two-year plan outlining the specific actions the utility will take to implement its integrated resource plan.

(h) A report on the utility's progress towards implementing the recommendations contained in its previously filed plan.

(4) Timing. Unless otherwise ordered by the commission, each electric utility must submit a plan within two years after the date on which the previous plan was filed with the commission. Not later than 12 months prior to the due date of a plan, the utility must provide a work plan for informal commission review. The work plan must outline the content of the integrated resource plan to be developed by the utility and the method for assessing potential resources.

(5) Public participation. Consultations with commission staff and public participation are essential to the development of an effective plan. The work plan must outline the timing and extent of public participation. In addition, the commission will hear comment on the plan at a public hearing scheduled after the utility submits its plan for commission review.

(6) The commission will consider the information reported in the integrated resource plan when it evaluates the performance of the utility in rate and other proceedings.

[Statutory Authority: RCW 80.01.040 and 80.04.160. 01-11-004 (Docket No. UE-990473, General Order No. R-482), § 480-100-238, filed 5/3/01, effective 6/3/01.]

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[6] Please refer to PSE's cover letter for an explanation of this added language.
[7] Please refer to footnote 1.
[8] Please refer to footnote 3.