



STATE OF WASHINGTON

Department of Community, Trade and Economic Development

ENERGY POLICY DIVISION

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July 18, 2003

Ms. Carole Washburn, Secretary
Washington Utilities and Transportation Commission
PO Box 47250; 1300 S. Evergreen Park Drive, SW
Olympia, WA 98504-7250

RE: Docket # UE-030594 and UG-030595 Comments on Puget Sound Energy's 2003 Integrated Resource Plan

Dear Ms. Washburn:

It is our pleasure to offer comments on Puget Sound Energy's 2003 Integrated Resource Plan (IRP) on behalf of the Washington Department of Community, Trade and Economic Development (CTED) Energy Policy. A CTED representative has actively served on the Least Cost Plan Advisory Group (Advisory Group) of Puget Sound Energy (the Company) and found it be the most analytically thorough, stakeholder inclusive, educational IRP process that she has participated in over the last ten years. We recommend that the WUTC accept this IRP after the Demand-side Management addendum is completed, filed August 31st, and reviewed.

As a member of the Advisory Group, we would like to acknowledge that this IRP is already a living document that is undergoing modifications. At an Advisory Group meeting this week, the Company described necessary changes that are already being incorporated in the IRP that lower the load forecast, raise the natural gas price forecast, improve winter hydropower availability, and consider a scenario for accelerating conservation resources. This is one indication that this document is being used as an analytical tool that screens resource decisions through a mutually understood and accepted methodology. We support the Company's commitment to make this IRP such a tool and to regularly share updates with external parties.

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Earlier this year CTED Energy Policy completed an update of the State Energy Strategy (SES). The first guiding principle, adopted by the SES Advisory Committee, placed a great deal of importance on integrated resource planning. "Encourage all load-serving entities to adopt and implement integrated resource plans to ensure that they meet their obligation to serve their customers' projected long term energy and capacity needs." The second guiding principle focused on developing balanced, cost-effective, and environmentally sound resource portfolios. The fourth principle highlighted the desire of State leadership as well as Strategy Committee members to provide reliable power and reduce consumers' vulnerability to supply shortage and price volatility.

The Company has not only referenced these principles in its publication, it has produced chapters of analysis that convey the Company's similarly aligned goals:

- To balance risk of supply and risk of price volatility with low cost resources as they acquire a diversity of power supplies to serve their customers' power needs;
- To manage acquisition of new resources while continuing to reduce the Company's debt-equity ration and working to improve its credit rating,
- To identify threshold points - "indifference points" - at which environmental credits (or mitigating costs) indicate a need to invest in non-fossil fueled power plants,
- To recognize the financial value of cost-effective conservation potentially acquired in amounts that may exceed today's annual targets.

The Company's IRP indicates that they take this obligation to serve customers seriously. These goals are consistent with the recommendations in the State Energy Strategy. We support the Company's commitment to manage risk and secure a long-term, diverse mix of resources for its customers. This is a significant change, and in our analysis, a major improvement from its 2000 IRP.

There is one piece of analysis in the IRP that we consider insufficient to inform good decision-making. That is the use of peaking generators for electricity. One unresolved question is, "At what expected hours of operation does it make sense to switch from short-term, less efficient resources to higher capital cost, more efficient resources?" The gas analysis in Chapter 16, page 4 provides an indication as to when to meet incremental demand with LP-Air, storage or pipeline capacity. Comparable analysis is missing on the electric side. The second insufficiency is the lack of modeling potential reliance on peaking generators such as in dry years. The IRP indicates that the Company will rely on its peaking facilities to back-up lower hydro generation or winter

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peak loads, but it doesn't model that well. The data that we receive from the Company in the context of electricity fuel mix reporting indicates that the four peaking plants were operating 350% more during 2001 than during 2002. Specifically, Encogen, Fredonia, Whitehorn, and Frederickson produced 3.5 million MWhs in 2001 and approximately 1 million MWhs in 2002. The IRP supports this use of the plants. It would be useful to model their ability to deliver power during situations such as low water years.

There are a few items we would like to see included or clarified in the Company's 2005 IRP.

- We recommend including one or two alternative load growth scenarios in addition to the 1.4% annual average growth scenario included in the IRP for electric sales and 1.6% increase in peak loads.
- We would like to see some description of the Company's electricity transportation customers that includes aggregate megawatt-hours that are transported over Company lines and the percentage of electric revenues that come from transportation customers. The natural gas revenue data includes the share of PSE's natural gas revenues that come from transportation-only customers.
- Additionally, we would appreciate clarification on how the Aurora computer model is kept current on load modifications in the Northwest and throughout the WECC. Rate structures, load management programs, and reduced commercial and industrial demand instigated during the 2001 energy crisis have resulted in altered energy use patterns that may continue for years. Annual electricity loads throughout the Northwest dropped over 10% and near 1990 load levels. How are these types of power system modifications calculated into Aurora?

We would also urge the Company to include additional detailed data on actual and projected CO₂ mitigation costs in the 2005 IRP. The Company has properly recognized that such costs represent an increased cost risk for fossil fuel generation, especially coal-fired power plants. Organizations such as the Oregon-based Climate Trust believe that as the market for CO₂ mitigation projects mature costs could escalate by as much as ten to fifteen percent annually.

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We encourage the Commission to seek one additional item in the Company's Two-Year Action Plan. Given that the State of Washington passed a mercury reduction bill, ESHB 1002, and that mercury reduction is also being considered in Congress, we ask that the Company identify the magnitude of mercury emissions from the coal-fired generators that it owns or from which it purchases long-term power, and from state-of-the-art plants. This may begin the process for parties to analyze the costs of mercury emissions from existing and or new coal burning plants.

We also ask the Company and the Commission to prioritize components in the Two-Year Action plan. In particular, we see potential to reduce the Company's system peak with fuel-conversions from electricity in the residential sector and with critical peak load management programs. We see potential economic value to customers if the analyses of the pilot conversion project and the assessment of peak load management programs are expedited to determine potential for cost-effective peak reductions. We would like to see a Two-Year Action item that includes implementation of an optimum program design or implementation of a variety of programs for fuel conversion or load management.

We look forward to the publication of the addendum that updates the conservation supply curves and more clearly articulates the cost-effective mix of supply and demand side resources that will best serve the Company's ratepayers. It should also summarize preliminary research on the ability of peak load management strategies to benefit the Company's power system and reduce ratepayer costs. The 2003 IRP will be an acceptable document in accordance with Least Cost Planning statutes when this demand side analysis is complete.

We extend our appreciation to the team of Company employees, executives, and consultants that produced this document and created a culture that actively engaged external stakeholders. At every step the Company communicated a commitment to responsibly serve their core customers. This team developed a very useful analytical framework by which to review resource investment decisions. The IRP places this framework in the context of the Company's constrained financial situation as well as the local and national economic recession. Most importantly, the team is already updating the document. This will assist stakeholders and the WUTC in better understanding Company near-term resource decisions.

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If you have questions about our comments please feel free to contact me at 956-2125 or Liz Klumpp at 956-2071 for further information. Thank you, for this opportunity to offer comments.

Sincerely,

Tony Usibelli
Director Energy Policy Division