BEFORE THE

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

In the Matter of	)	DOCKET UE-160353
	)	
	)	COMMENTS OF THE INDUSTRIAL
Pacific Power & Light Company's	)	CUSTOMERS OF NORTHWEST
2017 Integrated Resource Plan.	)	UTILITIES
	)	

I. INTRODUCTION

1 Pursuant to the Washington Utilities and Transportation Commission's ("WUTC" or the "Commission") notice of opportunity to file written comments, the Industrial Customers of Northwest Utilities ("ICNU") submits the following comments regarding the Pacific Power & Light Company's ("Pacific Power" or the "Company") 2017 Integrated Resource Plan ("IRP").

II. COMMENTS

2 From ICNU's perspective, the most consequential features of Pacific Power's 2017 IRP appear to be the Company's plan for major investments in wind, solar, and associated transmission, with a corresponding move away from investments in coal-fired generation. ICNU sees the *potential* for customer benefit in the Company's new investment plans—but also very considerable risk, especially considering the sheer magnitude of capital implicated by Pacific Power's ambitious plans. Accordingly, ICNU respectfully requests that the Commission take express note of such risk potential in any future acknowledgement letter.

3 More specifically, the Company plans to repower 905 MW of its existing wind fleet, while adding 1,100 MW of new Wyoming wind resources by the end of

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2020.[1] To accommodate this new generation, PacifiCorp plans to invest in a new 140-mile, 500 kV transmission line, also to be completed by the end of 2020.[2] Beyond 2020, the Company's resource mix includes an additional 859 MW of wind generation (85 MW of Wyoming wind, scheduled to come online in 2031, and 774 MW of Idaho wind scheduled for 2036), as well as new solar resources, mostly in Utah, totaling 1,040 MW and set to come online over the 2028 to 2036 timeframe.[3] With respect to its near-term investment plans, the Company's haste to complete these projects by 2020 is driven by a desire to capture the full benefits of federal wind production tax credits ("PTCs").[4]

A. Wind Repowering

4 First, these comments briefly address the Company's wind repowering proposal, which is one of the primary proposals in the Company's IRP that could impact Washington rates. ICNU has conducted a high-level review of the proposal, and has two primary concerns with the plan.

5 As a threshold matter, production PTCs are not free. While the Company itself may obtain tax benefits associated with PTCs at no cost, the cost of those tax expenditures are borne by taxpayers and society as a whole. That social cost does not seem to be factored into the Company's analysis.

6 ICNU is concerned with such lack of social considerations because, through the wind repowering plan, the Company is requesting acknowledgment of what may well be regarded as an excessively wasteful activity. That is, the Company proposes

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[1] PacifiCorp 2017 IRP, Volume I at 2.
[2] PacifiCorp 2017 IRP, Volume I at 2.
[3] PacifiCorp 2017 IRP, Volume I at 2-3.
[4] PacifiCorp 2017 IRP, Volume I at 2.

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to take perfectly good wind generation infrastructure, which may have otherwise been in service for an additional 25-30 years, and decommission that infrastructure at great cost—all for the sole purpose of obtaining a tax benefit.

7 As an advocate for ratepayers of Pacific Power and taxpayers generally, ICNU cannot readily support this type of the wasteful activity. At the end of the day, ICNU members and other ratepayers must bear the cost of repowering infrastructure, whether through rates or through taxes. Suffice to say, there are more beneficial ways for the tax expenditures to be used than unnecessarily tearing down and rebuilding wind turbine components.

8 In addition, the strategy Pacific Power proposes seems to be a purely economic one, in the sense that wind repowering is not justified based on an identified need to provide services. Rather, according to the Company, "this exciting project" is justified because it "will save customers hundreds of millions of dollars."[5/] As "exciting" as this sounds, however, the plan is still problematic because the Company's proposal is not without risk. If the resources were needed for load service, for example, then there might be less of a question as to whether ratepayers should ultimately be responsible for bearing the financial risk of the Company's resource decisions. But, in the instance of a purely economic project, ratepayers should not be expected to bear all of the risk, no more than ratepayers should be expected to bear the risks of utility investment in a merchant power plant.

9 There would appear to be numerous assumptions inherent within the repowering plan which, if they do not occur as expected, could cause the repowering

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[5/] PacifiCorp 2017 IRP, Volume I at 3.

strategy to be uneconomic—potentially imposing great costs on ratepayers, as a result. For instance, regardless of any apparent certainty that Pacific Power will be able to claim incremental PTCs, based on present assumptions, the Internal Revenue Service ("IRS") may ultimately disallow these investments. In particular, the safe harbor that the Company relies upon to qualify for incremental PTCs can be found IRS Notice 2016-31. An IRS notice, however, does not carry the same weight as a statute or regulation, and the IRS position with respect to the notice may change. Moreover, IRS Notice 2016-31 was issued under the prior administration; so, given the acute policy reversals seen in just the first few months of the current administration, there would seem to be a strong potential for the position of the IRS to change, or for Notice 2016-31 to be held unlawful.

10 Determining whether repowering activities qualify for the safe harbor is also not necessarily straight forward, and it is possible that the Company improperly assessed its ability to utilize PTCs. Accordingly, ratepayers should not be responsible for any additional costs, to the extent that the IRS later finds that the credits should be disallowed, or if the credits for some other reason become unusable. For example, ratepayers should not be required to pay a carrying charge on PTC carryforwards, if the Company is not in a taxable position that allows for credit utilization in a future period.

B. New Wind Resource and Transmission Investment

11 Similarly, new wind resource acquisition plans present a significant amount of additional market risk on ratepayers. In short, to the extent market prices do not escalate in the manner the Company forecasts, the ultimate value of the new acquisition investment would be greatly diminished. ICNU has significant concerns that

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ratepayers could then be left to bear the burden on recovering such uneconomic investment.

12 Like the wind repowering plan, the Company presents the new wind and transmission asset plan based on pure economics, rather than a need to serve load. In fact, even "before adding any incremental new generating resources," the Company's capacity balance is such that both summer and winter margins are projected to be well in excess of the 13 percent target planning margin over the next decade.[6/] In terms of energy balance, a mere sliver of energy shortfall is projected through the same period, again "before adding any incremental new generating resources."[7/] Further, such is the lack of actual "need" for new resource acquisition that "[t]he first new natural gas resource is added in 2029, one year later when compared to PacifiCorp's 2015 IRP preferred portfolio …."[8/]

13 Notwithstanding, according to Pacific Power, new wind resource and transmission investment planned by 2020 will provide "significant economic benefits for PacifiCorp's customers," and "extraordinary economic development benefits to the state of Wyoming."[9/] For such near-term wind and transmission investment, however, Washington ratepayers might see no benefits to correspond with investment risk. Specifically, new renewable resources will only be "added to the west side beginning 2028," while "Washington customers do not benefit from the repowered wind and renewable resources added to the east side of PacifiCorp's system."[10/]

6/ PacifiCorp 2017 IRP, Volume I at 10-11.
7/ PacifiCorp 2017 IRP, Volume I at 12.
8/ PacifiCorp 2017 IRP, Volume I at 2.
9/ PacifiCorp 2017 IRP, Volume I at 2.
10/ PacifiCorp 2017 IRP, Volume I at 8.

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C. Washington IRP Requirements

14 The lack of actual new resource "need" for Washington customers, and the complete emphasis upon potential economic benefits for near-term acquisition strategies to maximize PTC opportunities, is worth contemplating against the Washington statutory and rule provisions on IRP requirements. For instance, under statute, the Company is required to assess and compare "the benefits and *risks* of purchasing power or building new resources."[11] Indeed, the statutory purpose of an IRP is to provide an assessment of "current and projected *needs* … at the lowest reasonable cost and *risk* to the utility and its ratepayers."[12] The hallmark of the Company's 2017 IRP, however, appears to be an ambitious assessment of economic opportunity divorced from "need," and with a worrying lack of "risk" assessment on eventual investment responsibility, if all does not go according to plan—at least from a ratepayer standpoint.

15 Likewise, WUTC rules define an IRP, not as a vehicle to formulate risky economic opportunities, but as a plan "that will meet current and future *needs* at the lowest reasonable cost to the utility and its ratepayers."[13] Pacific Power is even required, "[a]t a minimum," to consider "market-volatility risks" and "the risks imposed on ratepayers" by its plan.[14] Yet, ICNU is less than assured that ratepayers will not be faced with considerable risk in later recompensing Pacific Power for new resource and repowering investments gone sour, if "exciting" opportunity assumptions do not materialize.

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[11] RCW § 19.280.030(1)(c) (emphasis added).

[12] RCW § 19.280.030(1)(f) (emphasis added).

[13] WAC § 480-100-238(2)(a) (emphasis added). See also id. at (3)(f) (stating that an IRP is to describe the mix of resources "designated to meet current and projected future *needs*") (emphasis added).

[14] WAC § 480-100-238(2)(b).

III. CONCLUSION

16 ICNU appreciates this opportunity to provide comments on Pacific Power's 2017 IRP. The Company's ambitious plans for wind repowering, as well as new wind resource acquisitions and associated transmission investment, may well have the *potential* for notable economic benefits, for both Pacific Power and its customers. That said, ICNU recommends that the Commission consider the risks involved with an IRP focused upon economic opportunities more than "need," and which may be suited to benefit eastern PacifiCorp customers primarily, even if benefits come to fruition.

Dated this 16th day of June, 2017.

Respectfully submitted,

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