

**Comments of Public Counsel
Washington Attorney General's Office
Regarding**

**Puget Sound Energy Least Cost Plan
(dated April 30, 2003)**

July 18, 2003

Introduction

Public Counsel respectfully submits these policy and technical comments on the Puget Sound Energy (PSE) Least Cost Plan for 2001 (dated April 30, 2003). These comments include both general policy points and a technical section tied directly to specific pages and sections of the Least Cost Plan. Public Counsel will attend the public hearing scheduled for July 21 in Bellevue, Washington, to orally present our policy comments. We will also have a technical consultant available to address that portion of our comments.

Identification of policy and technical issues with the proposed Least Cost Plan is part of the process of analysis, criticism, and debate which is integral to the least cost planning process. Public Counsel also takes this opportunity, however, to commend PSE's efforts in devoting time and resources to make this a meaningful process for stakeholders. While it must be acknowledged that the planning process has fallen behind schedule, overall the process in this round has been significant improvement over past years. The proposed plan has many positive attributes. The Company has created many innovative new analytical tools that, we hope, will improve the quality of resource decisionmaking in the future. Our comments are intended as constructive criticism and we look forward to continuing to work with PSE and other stakeholders to the ultimate benefit of the company's Washington customers.

Policy Issues

While we are impressed with some of the new analytical tools that PSE has developed for this plan, there are some fundamental shortcomings of the Plan that need to be addressed before the Commission can accept the plan and allow the Company to move forward with implementation.

First and foremost, the Least Cost Plan does not meet the minimum requirements of WAC 480-100-238, because it does not contain an assessment of conservation (DSM) resources. This assessment is under way. However, the Plan cannot be considered legally or practically complete without this analysis. Because of the very large DSM resource available to PSE, we expect this analysis to significantly affect the least-cost resource portfolio that PSE will pursue. The "update" including this assessment is due on August 31, 2003, only a few weeks from now.

Second, the Least Cost Plan is deficient because it does not contain the assessment of fuel-switching opportunities that the Commission directed the Company to prepare in its August 28, 2001 letter. Our reconnaissance-level analysis of fuel-switching potential is that if Puget converted about one-third of its approximately 400,000 electric heat customers to natural gas space and water heat, it could reduce its peaking requirements by about 430 megawatts. This is the same order of magnitude as the proposed acquisition of high-cost peaking power plants identified in Appendix I of the Least Cost Plan. Since

the Company has known of this requirement since August 28, 2001, it should have been included in the Plan.

We recommend that the Plan not be accepted as final until these necessary elements are submitted and reviewed. In Public Counsel's view, the substantive soundness of the plan is worth the relatively short delay. We believe that both elements can be completed by the end of this year. We recommend that the Plan be remanded to the Company for completion (DSM by 8/31), and resubmitted by the end of the year.

Third, the Least Cost Plan recognizes that acquiring new peaking power plants to back up wind is a high-cost strategy. However, it has done no loss-of-load analysis to see if this back-up strategy is even necessary, or if so, to what degree. Other studies have shown that wind energy does provide a capacity benefit to the reliability of the system in proportion to the capacity factor of the resources. We think it likely that this might fundamentally shift the character of the least-cost portfolio.

Finally, the Least Cost Plan shows clearly that at any reasonable level of carbon dioxide or nitrogen oxides mitigation requirement, it is not economically advisable to pursue coal generation. Nonetheless, PSE has not removed coal from the potential resource mix. At a minimum, we will recommend that any consideration of acquisition of coal resources be deferred, and will take the position that acquisition of a coal resource is imprudent unless shareholders accept all of the risk of future emission regulations.

As noted above, the Least Cost Plan does not meet the requirements of the WAC with respect to DSM and does not meet the requirements of the Commission's August 28, 2001 letter as to fuel switching. Since these two resources are both large in magnitude and low in cost, we think it would be inappropriate to accept this Least Cost Plan as complete.

Scheduling Recommendation

August 31, 2003	DSM Analysis Completed
August to December	PSE conducts and implements fuel switching analysis, other additional directives of the Commission
December 31, 2003	PSE next LCP, incorporating and updating above elements
Jan - February, 2004	Comments (and Hearing on resubmitted Plan) Commission Acceptance of Plan

Technical Comments

Public Counsel technical comments follow, referencing the relevant chapter and page number of the Plan, and including referenced appendices.