



# PUGET SOUND ENERGY

*The Energy To Do Great Things*

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February 5, 2010

Mr. David W. Danner, Executive Director and Secretary  
Washington Utilities and Transportation Commission  
1300 S. Evergreen Park Drive S.W.  
Olympia, WA 98504-7250

2010 FEB -8 AM 9:09  
STATE OF WASHINGTON  
UTILITY AND TRANSPORTATION  
COMMISSION

**Re: Docket No. U-072375**  
**Compliance Filing for Commitment Number 55 of Appendix A to the Multiparty Settlement Stipulation**  
*Filed via WUTC web-portal & Overnight FedEx*

Dear Mr. Danner:

Order 08 (Final Order) in the above-referenced docket included a Settlement Stipulation as Appendix A. Commitment number 55 of the Settlement Stipulation is as follows:

55. Each of the Joint Applicants agrees that PSE will
- (a) consider the final recommendations of the Oregon Public Utility Commission in Docket UM1302 within the context of the IRP; and
  - (b) report to the Commission and the parties to this proceeding the results of PSE's assessment of the final recommendations of the Oregon Public Utility Commission in Docket UM1302 and their applicability to PSE's IRP process within twelve months of the close of the Proposed Transaction.

Puget Sound Energy, Inc. ("PSE") hereby submits its report regarding PSE's consideration of the Oregon Public Utility Commission's final recommendations in Docket UM 1302 ("Report on Consideration") in accordance with the above referenced commitment. This Report on Consideration includes the results of PSE's assessment of the final recommendations in Docket UM 1302 and their applicability to PSE's IRP process as was discussed at the December 15, 2009, IRP ("Integrated Resource Plan") Advisory Group meeting. PSE went through each of the four provisions of Docket UM 1302 at this IRP Advisory Group meeting, and the dialogue with stakeholders helped shape PSE's responses in this Report on Consideration.

This Report on Consideration is filed by PSE pursuant to and in order to satisfy Commitment number 55 of the Settlement Stipulation, Appendix A to Order 08 (Final Order) in the above-referenced docket. A copy of the Report is being sent to each party on the service list in Docket No. U-072375.

PSE looks forward to continuing to work with stakeholders to help prioritize and better understand how future carbon regulation might affect PSE's IRP as a workplan is developed for the 2011 IRP.

If you have any questions about this compliance filing for Commitment number 55 or require further information, please feel free to call me at (425) 462-3495.

Very truly yours,

A handwritten signature in black ink that reads "Tom DeBoer". The signature is written in a cursive, slightly slanted style.

Tom DeBoer  
Director, Federal & State Regulatory Affairs

Enclosure

cc: Service List U-072375

**PSE Merger Commitment 55  
Report on Consideration of OPUC-1302**

The following report summarizes PSE's assessment of the Oregon Public Utilities Commission's final recommendations in Docket UM-1302, within the context of the Integrated Resource Planning ("IRP") process. Specifically, this refers to "Adopted Guideline 8," which is Appendix C to Order No. 08-339 ("Guideline 8"). There are four elements to Guideline 8. In the following report, the text of Guideline 8 is presented, followed by PSE's assessment of that element.

STATE OF OREGON  
PUBLIC UTILITIES COMMISSION  
DOCKET UM-1302

2010 FEB -8 AM 9:10

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REGULATORY MANAGEMENT

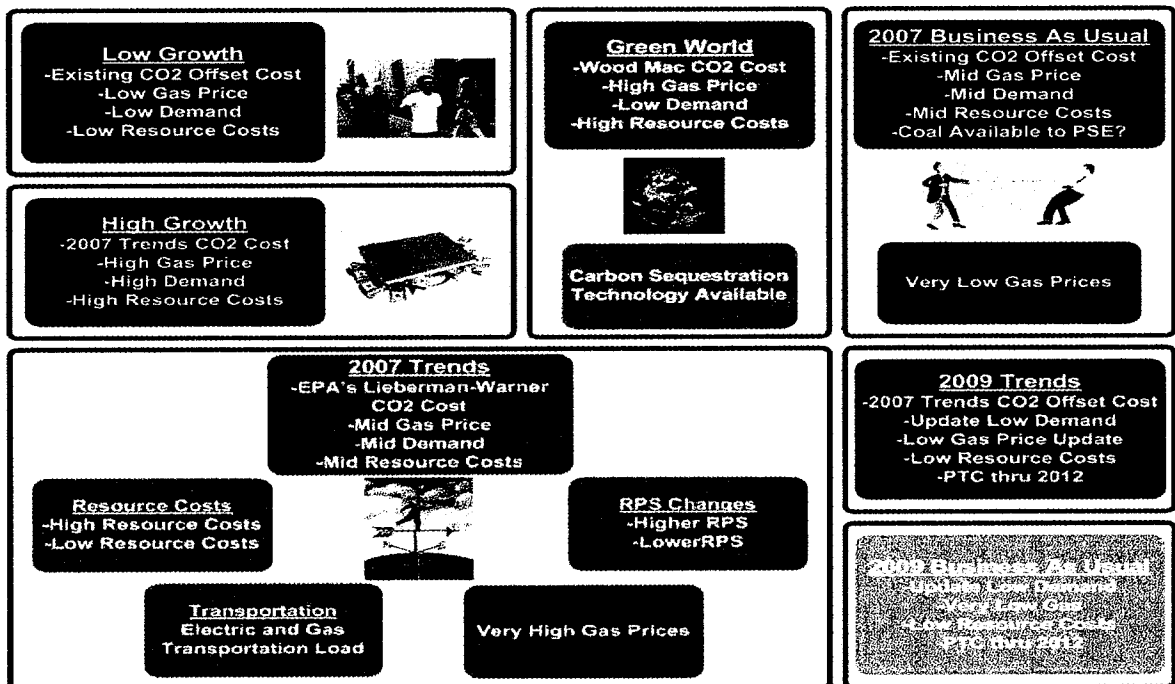
## GUIDELINE 8: ENVIRONMENTAL COSTS

**a. BASE CASE AND OTHER COMPLIANCE SCENARIOS:** The utility should construct a base-case scenario to reflect what it considers to be the most likely regulatory compliance future for carbon dioxide (CO<sub>2</sub>), nitrogen oxides, sulfur oxides, and mercury emissions. The utility also should develop several compliance scenarios ranging from the present CO<sub>2</sub> regulatory level to the upper reaches of credible proposals by governing entities. Each compliance scenario should include a time profile of CO<sub>2</sub> compliance requirements. The utility should identify whether the basis of those requirements, or “costs,” would be CO<sub>2</sub> taxes, a ban on certain types of resources, or CO<sub>2</sub> caps (with or without flexibility mechanisms such as allowances or credit trading or a safety valve). The analysis should recognize significant and important upstream emissions that would likely have a significant impact on its resource decisions. Each compliance scenario should maintain logical consistency, to the extent practicable, between the CO<sub>2</sub> regulatory requirements and other key inputs.

**Assessment:** The focus of this assessment is on the alternative CO<sub>2</sub> compliance regimes. PSE’s 2009 IRP did contemplate three of the four high level regimes: taxes, carbon caps (with flexibility for allowance trading), and no new coal plants. Figure 3-1 below is a summary of the scenarios analyzed in the IRP, for a full discussion of the scenarios see Chapter 3 of the 2009 IRP.

The primary regime not represented in the 2009 IRP was analysis of a physical carbon cap with no trading. Analysis to reasonably reflect key implications of this kind of regulatory regime is very complex. The analysis must reflect market impacts of curtailing emissions, this goes beyond the portfolio impacts explored in previous IRPs. PSE will consider adding this CO<sub>2</sub> compliance regime in the 2011 IRP along with other potential regulatory schemes. We will work with stakeholders to prioritize range of policies.

*Figure 3-1  
Planning Scenarios*



## **GUIDELINE 8: ENVIRONMENTAL COSTS**

### **b. TESTING ALTERNATIVE PORTFOLIOS AGAINST THE COMPLIANCE**

**SCENARIOS:** The utility should estimate, under each of the compliance scenarios, the present value of revenue requirement (PVRR) costs and risk measures over at least 20 years for a set of reasonable alternative portfolios from which the preferred portfolio is selected. The utility should incorporate end-effect considerations in the analyses to allow for comparisons of portfolios containing resources with economic or physically lives that extend beyond the planning period. The utility should also modify projected lifetimes as necessary to be consistent with the compliance scenario under analysis. In addition, the utility should include, if material, sensitivity analyses on a range of reasonably possible regulatory futures for nitrogen oxides, sulfur oxides, and mercury to further inform the preferred portfolio selection.

**Assessment:** Cross-checking performance of least cost portfolios in different scenarios was done in PSE's 2009 IRP, Chapter 5 of the IRP gives an over view of the analysis and the results while Appendix I is a detailed discussion. Similar portfolio analysis has been done since the 2005 Least Cost Plan.

Modifying plant lives in an IRP may prove challenging. The OPUC ruling is focused on the Boardman generating facility. PSE's resource to be most greatly affected by carbon policies is Colstrip. Performing this type of analysis is significantly different for the following reasons:

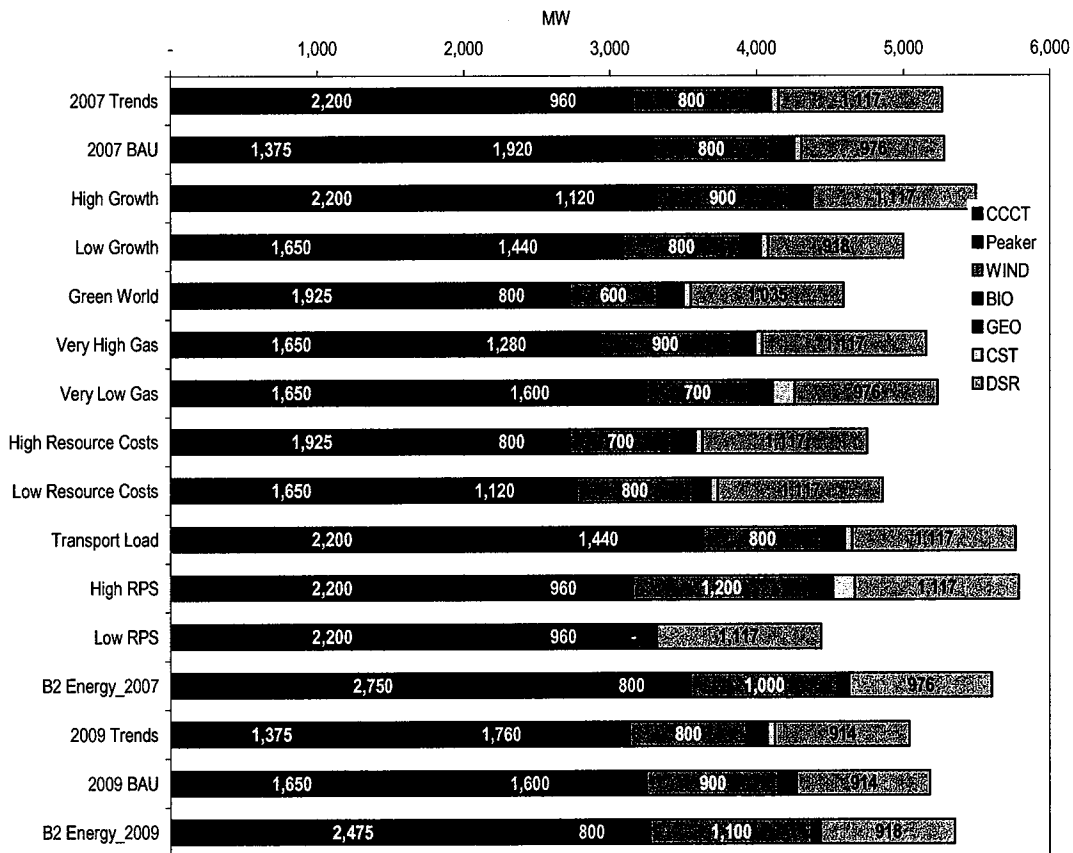
- Colstrip doesn't require \$600M to come into compliance with current emission standards;
- Ownership structure is more complex, with multiple owners;
- It is not practical for PSE to consider shutting down Colstrip given the ownership structure and economic value the plant provides to customers. The Company could consider selling its interest in Colstrip, but this would be a different analysis than what is referenced in this element of Guideline 8, and not appropriate to publicly disclose in an IRP.

**GUIDELINE 8: ENVIRONMENTAL COSTS**

**c. TRIGGER POINT ANALYSIS.** The utility should identify at least one CO2 compliance “turning point” scenario which, if anticipated now, would lead to, or “trigger” the selection of a portfolio of resources that is substantially different from the preferred portfolio. The utility should develop a substitute portfolio appropriate for this trigger-point scenario and compare the substitute portfolio’s expected cost and risk performance to that of the preferred portfolio—under the base case and each of the above CO2 compliance scenarios. The utility should provide its assessment of whether a CO2 regulatory future that is equally or more stringent than identified in the trigger point will be mandated.

**Assessment:** PSE’s 2009 IRP illustrated that a very wide range of carbon costs have almost no impact on composition of the least cost portfolio. The Chart below is taken from chapter five of the IRP. It demonstrates that portfolio builds across scenarios from essentially zero carbon cost to unrealistically high carbon costs are very similar. Therefore, over the relevant range of carbon costs, there does not appear to be a trigger point to identify within the context of the IRP process.

*Figure 5-25  
2029 Resource Builds by Scenarios*

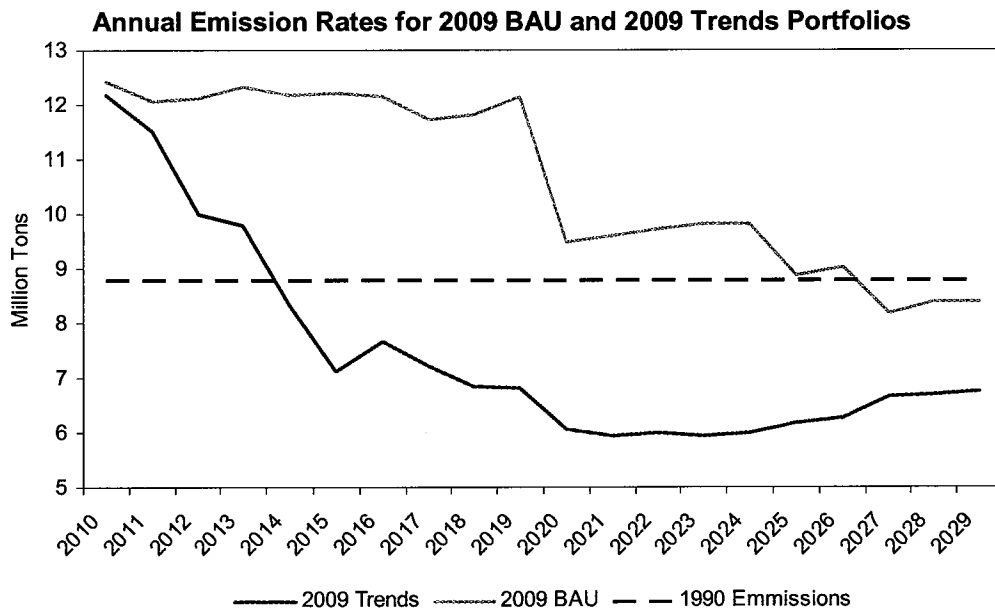


## GUIDELINE 8: ENVIRONMENTAL COSTS

- d. **OREGON COMPLIANCE PORTFOLIO:** If none of the above portfolios is consistent with Oregon energy policies (including state goals for reducing greenhouse gas emissions) as those policies are applied to the utility, the utility should construct the best cost/risk portfolio that achieves that consistency, present its cost and risk parameters, and compare it to those of the preferred and alternative portfolios.

**Assessment:** 2009 IRP illustrates how the convergence of various policies impact carbon emissions. All portfolios were designed to comply with existing policies, with some sensitivity about changes in policies, including RPS increase/decrease. Figure 5-34 compares the annual emissions of the 2009 Trends Portfolio with the 2009 Business As Usual Portfolio. Essentially, this is a comparison of portfolios with and without CO<sub>2</sub> costs. (2009 Trends includes CO<sub>2</sub> costs of \$37 per ton in 2012 that rise to \$130 per ton by 2029; 2009 Business As Usual includes a negligible \$0.32 per ton.) Appendix I of the IRP gives emissions profiles for all portfolios analyzed in the IRP.

Figure 5-34



Note, Washington does not have a specific overall GHG emission target for the utility sector. RCW 70.235 has a statewide GHG emission reduction target, but not a utility sector target. Also, Figure 5-34 shown above is a PSE perspective on emissions, which includes out-of-state emissions. Whether RCW 70.235 applies to indirect emissions from sources outside of Washington is unclear. As carbon regulation policies continue to develop, PSE's current approach of reporting emissions from various scenarios and sensitivities seems to provide the correct information to policy makers about the potential impact of such regulations on PSE's emissions and costs.