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STATE OF WASHINGTON
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NOTICE OF INQUIRY (NOI)

Examining Regulation of Electric Utilities in the Face of Change in the Electric Industry

Docket No. UE-940932

By this Notice, the Commission initiates an Inquiry into, and invites comments about, structural change in the electricity industry; the implications of industry changes for utility regulation; and recommendations concerning specific rules and regulations currently used by the Commission. The Commission intends to use the information collected by this Inquiry in two ways: first, to inform a broad discussion involving a wide range of interested parties concerning change in the electricity industry. The Commission hopes that information generated by the Inquiry will prove useful to other public and private entities in carrying out their responsibilities with respect to and within a changing electric utility environment. Second, the Commission will use responses from this Inquiry to review and, if necessary, revise regulatory procedures and rules concerning least-cost planning, competitive bidding for utility resources, and review of the prudence of utility expenditures.

I. Introduction

Changes are taking place in the electric industry, both nationwide and regionally, that suggest it is time to examine how the Commission regulates electric companies. These changes include an increasing emphasis on competition in both wholesale and, in some parts of the country, retail power supply markets. At the same time, regional and national policies continue to favor meeting future energy needs consistent with long-term plans which balance energy efficiency and renewable resources with thermal sources of generation.

The Commission is thus faced with an apparent dilemma in its regulatory mission: regulate with a light touch to accommodate development of competitive markets, relying on market forces to achieve long-term energy and environmental objectives; use prescriptive control mechanisms to achieve long-term objectives, even though these may be inconsistent with, and in fact obstruct, the operation of a competitive market; or find some middle ground that will achieve the benefits of both competition and long-term policy objectives.

The tension between these paradigms -- long-term resource planning versus market forces -- was recently embodied in the National Energy Policy Act of 1992 (EPACT). This Act encouraged greater competition by establishing a new class of unregulated power generators and by authorizing the Federal Energy Regulatory Commission to order access to the nation's transmission grid. At the same time, however, the Act reiterated the importance Congress places on integrated resource planning (IRP), and the development of conservation and renewable electricity resources by utilities.

By articulating policies which encourage both competition and integrated resource planning, EPACT has presented the industry and its regulators with a substantial challenge. Are the central and long-term planning characteristics of utility integrated resource planning consistent with greater competition in the electricity industry? Can competition and long-term resource planning be made complementary, or are they mutually exclusive? This is a particularly important question in the Pacific Northwest, which, under the Pacific Northwest Electric Power Planning and Conservation Act (PL 96-501) (Power Act), has pursued long-term regional resource planning and investment in energy efficiency for almost 15 years.

The tension between long-term central planning and greater reliance on competition is also reflected in the contrast between regulatory policies that rely on control and prescriptive approaches and those that use minimal control and few prescriptive requirements. In an industry marked by greater competition, we need consider what level of regulatory scrutiny is truly necessary to protect monopoly customers, and whether

companies competing for customers and market share should be expected to disclose business and resource plans if such disclosure will surrender competitive advantage. Will regulatory mechanisms, such as traditional rate of return regulation, open least-cost resource planning and resource bidding procedures, prevent utilities, their customers, and other industry players from developing and fully participating in a competitive marketplace?

Alternatively, a competitive marketplace may not be the only objective of public oversight of electric utilities, given the vital role that energy plays in our society. Competition alone may not achieve various objectives society has placed on the electricity industry: investment in conservation and renewable resources; environmental stewardship; and provision of service to all customers, including citizens with limited ability to pay. If some customers choose to leave the system, adversely impacting the costs and service of others, can the market be managed to strike a fair balance?

The challenge facing utility regulation in Washington State is complicated further by the fact that less than one-half of the electricity in the state is provided by companies regulated by the Commission. Changes affecting the shape of the electricity industry in Washington extend beyond the jurisdiction of the Commission. These include restructuring or privatization of the Bonneville Power Administration; the role consumer-owned electric utilities will play in the development of electricity resources and services; the impact fish and wildlife recovery projects may have on the hydropower generation system; and development of both small and large scale generation projects by entities that are neither investor-, or consumer-owned utilities.

The Commission is undertaking this Inquiry to help meet these challenges, and to best manage an adaptive response to the changing industry.

II. Washington Regulatory Issues and Status

The WUTC regulates three investor-owned electricity companies: Puget Sound Power and Light Company ("Puget"), the Washington Water Power Company ("WWP"), and Pacific Power and Light ("Pacific Power"). Puget's service territory lies entirely within the state, while Pacific Power serves seven Western states. WWP serves two states and has filed a proposed merger with Sierra Pacific Resources that would see the merged companies serve five states. WWP and Pacific Power are regulated under traditional cost of service ratemaking, while Puget is regulated under an experimental format that decouples utility revenues from sales volumes and provides a mechanism for the recovery of resource costs. Among the objectives of the Puget experiment is reduction of disincentives for investing in resources identified in the least-cost plan, including energy efficiency.

Washington's electricity industry differs from that of the rest of the country in a number of ways.

- More than half of Washington's electricity is produced by hydroelectric projects. This compares to less than ten percent for the nation as a whole.

- More than half of Washington's electricity service is provided by consumer-owned utilities which rely on federally-owned hydroelectricity marketed by the BPA for the bulk of their electricity supplies. These consumer-owned utilities have, at times over the last 50 years, competed with investor-owned utilities for retail customers.

- About 80 percent of the high voltage transmission grid is owned by the federal government (BPA), rather than by individual utilities.

- Washington's electricity rates, from both investor-owned and consumer-owned utilities, are among the lowest in the nation.

- Federal legislation, the Power Act, established a forum for centrally planning electricity resource development and established a preference for efficiency and renewable resources.

- The same Federal legislation created the residential and small farm exchange which provides a vehicle for certain customers of investor-owned utilities to benefit from the low cost of the federal Columbia River Power System.

- The Pacific intertie and the merger of Pacific Power and Light and Utah Power and Light provide multiple high capacity transmission corridors between the Pacific Northwest and California and the Southwest.

Over the last decade the Commission has adopted a number of rules, policies, and procedures designed to align its regulatory role with state, regional, and national policy objectives.

Least-cost planning rule. In 1987, the Commission adopted its least-cost planning rule (WAC 480-100-251), which required jurisdictional electric companies to develop least-cost plans for Commission review every two years. The plans are defined in rule as a plan to "...meet load with a least-cost mix of generating resources and improvements in the efficient use of electricity." Such plans consider a range of future electric demand; the cost of available demand- and supply-side resources to meet that demand; an integrated plan to meet load at lowest cost to the utility and its

ratepayers over a 20 year period; and an action plan for implementing the plan's direction over each two year period. Plans are to be developed with input from the public.

Competitive bidding rule. In 1989, the Commission adopted rules which require jurisdictional electric companies to solicit bids from generation and conservation suppliers (WAC 480-107-060/070). These rules had two objectives: ensuring that regulated companies do not pay too much for purchase power resources, and ensuring that utilities compare opportunities in competitive wholesale markets with the cost of utility-owned projects. These rules were recently modified to synchronize the timing of solicitations with the completion of least-cost plans, and to permit negotiation of bid prices.

Policies to protect a company from reduction of short term earnings. In 1990, the Legislature directed the Commission to consider the adoption of two policies concerning conservation investment made by companies it regulates:

> (1) The Commission shall consider and may adopt a policy allowing an incentive rate of return on investment in programs to improve the efficiency of energy end-use or other incentive policies to encourage utility investment in such programs; and
>
> (2) The Commission shall consider and may adopt other policies to protect a company from a reduction of short-term earnings that may be a direct result of utility programs to increase the efficiency of energy use. These policies may include allowing a periodic rate adjustment for investments in end-use efficiency or allowing changes in price structure designed to produce additional revenue (RCW 80.28.260).

To carry out this directive, the Commission initiated a Notice of Inquiry (NOI) in 1990 to examine whether there are regulatory barriers to least-cost planning for electric utilities, and what modifications to traditional regulation might remove them (Docket UE-900385). This NOI resulted in eleven sets of lengthy comments provided by utilities and other interested parties. The comments exhibited two areas of consensus. First that a utility's least cost plan should be the most profitable plan for it to follow, and second, that some regulatory practices were in conflict with that goal.

Puget Periodic Rate Adjustment Experiment. In response to the Regulatory Barriers NOI, Puget Power expressed interest

in a regulatory experiment. Subsequently, the Commission approved an alternative form of regulation for Puget which "decouples" certain costs from sales volumes, provides a mechanism for resource cost-recovery, and which involves an annual periodic rate adjustment mechanism (PRAM). The experiment was initiated in 1991 (UE-901184), renewed with modifications in 1993 (UE-921262), and is scheduled to be reviewed again in 1996.

The Commission recently considered the prudence of several purchase power contracts entered into by Puget Power between 1989 and 1991. Its Order in that proceeding noted that, while prudence review remains important to ensure that a company is not indifferent to costs passed through to captive ratepayers, the Commission was not wholly satisfied with application of this regulatory tool; in particular, the Commission questioned how it might bring prudence reviews closer in time to actual utility decisions, and indicated an intent to issue the current NOI:

> ". . . exploring the interaction of the least cost planning process with competitive bidding and prudence review. . . . The inquiry will consider generically many of the issues litigated in this proceeding including, among others, the relationships between and among least cost planning, resource acquisitions, and prudence reviews; the competitive bidding and least cost planning rules; and alternatives to traditional prudence review, including performance-based and other alternative forms of regulation.
>
> The Commission is aware that the academic community and our own National Association of Regulatory Utility Commissioners are evaluating concepts like rolling prudence as a means to bring prudence reviews closer in time to the actual decisions by the utilities. In our view, the prudence review remains important to assure that the company is not indifferent to cost. Utility managers are faced with an increasingly competitive future. They must learn skills that their counterparts in the unregulated sector have always observed and succeeded or failed by soon." (UE-920433, 920499, 921262, Nineteenth Supplemental Order (September 27, 1994), pp. 36-37).

During 1994, the Commission convened informal roundtable discussions concerning issues facing the electricity industry. Based on those discussions, the Commission concludes that issues facing the industry and its regulation are both general and specific in detail; and further concludes that a more structured Inquiry is an appropriate process to undertake in order to examine actions that might improve current regulatory tools, and to prepare state policy makers to respond to a range of issues that may arise as the industry evolves. The Inquiry

format will allow all interested parties to engage in a frank and informal exchange of views. The Commission thanks participants in the 1994 roundtable discussions for their contributions. These discussions helped identify and define the scope of this Inquiry.

III. Purpose of the Inquiry

The Inquiry is intended to solicit opinions and analysis about implications of industry developments that will affect the role of electric utilities and the consequent role of regulation. This process will sharpen the Commission's ability to assess whether existing regulatory tools and procedures can be expected to serve well in the future; whether these tools and mechanisms require adaptation or modification; or whether a new regulatory framework using entirely new sets of tools and mechanisms should be fashioned. The intent is for the Inquiry to help frame a regulatory role that is consistent with both the Commission's statutory mission and realities of the electric industry.

Specifically, this Inquiry will provide a basis for determining whether the Commission's least-cost planning rule (WAC 480-100-251) and competitive bidding rule (WAC 480-170) will continue to be constructive regulatory tools, and whether rule-making to adapt or modify the rules is appropriate. In addition, the Inquiry will provide a basis for determining whether alternatives to current ratemaking mechanisms would be appropriate responses to industry change, and what principles should guide such alternative mechanisms.

Finally, this proceeding will serve to meet the requirement placed on state Commissions by Section 111 of the EPACT. EPACT amended the Public Utility Regulatory Policies Act (PURPA) to require states to consider the adoption of three new standards pertaining to integrated resource planning, utility investment in conservation and demand management, and energy efficiency investment in power generation and supply. Section 111 of EPACT also requires that states adopting the proposed standards implement the standards in a way that does not give utilities unfair advantage over small businesses in the development of energy efficiency. The text of EPACT Section 111 is included as an attachment.

IV. Structure of the Inquiry

To accomplish these purposes, this Inquiry has two parts. The first focuses broadly on the implications of structural change in the electricity industry. We intend Part 1 to yield opinions, facts, and analysis that will support a broad discussion of the changing role of the utility and its regulators and provide valuable information to any and all policymaking and administrative agencies who will play an important role in charting the state's response to industry change.

As discussed in the introduction, the electric industry is being buffeted by forces which, ultimately, may prove not to be compatible. The Commission cannot offer a definitive prediction of what the evolution of the structure and composition of the electricity market will, or should, be. Moreover, while we are not totally powerless to influence the shape of the industry in Washington, our influence is limited by factors and actions over which we have little jurisdiction or control. We can, however, identify a number of issues that we believe may be key contributors to change in the industry in Washington.

As a framework for Part 1 of our Inquiry, we have identified a number of these key issues. Any one, or combination of these scenarios could significantly influence the future shape and role of Washington's utilities. This list is not intended to exhaust all the possible factors likely to affect the future course of the industry. Neither should it be taken to represent any future preferred by the Commission. The scenarios do capture a number of plausible developments that would present a challenge to state energy and regulatory policy and the implementation of regulatory practice. For that reason we list these issues to stimulate thinking that is both creative and focused on plausible problems.

Part 2 of the Inquiry focuses on specific regulatory mechanisms currently in place. As noted earlier, the Commission requires electric companies to comply with regulations governing the development of least-cost resource plans (WAC 480-100-251) and regulations governing the solicitation of competitive bids for acquisition of non-company-owned electricity resources (WAC 480-107). In addition, the Commission exercises its responsibility to protect customers without competitive options by examining utility resource expenditures for prudence. Part 2 invites comments and recommendations concerning the above-listed regulations and the Commission's process for reviewing prudence of utility resource acquisition decisions.

We intend that the broad issues addressed in Part 1 of the Inquiry should provide context for the specific issues addressed in Part 2. Recommendations concerning specific regulatory tools

should indicate a relationship to the broader issues facing the industry. In particular, recommendations should address the advantages and disadvantages of imposing prescriptive oversight of utility actions, versus relying on market forces.

Written responses to this NOI constitute the first phase of our Inquiry. We intend for the second phase of the Inquiry to involve workshops, further roundtable discussions, and other opportunities for comment and input. We intend to observe the following timetable:

December 1994 -	Commission issues Notice of Inquiry
February 1995 -	Interested parties file comments
March 1995 -	Commission convenes workshops and other opportunities for comment.
Summer 1995 -	Commission issues summary of Inquiry and initiates rule-makings or other proceedings if appropriate.

A. Part 1: Industry Trends Impacting Electric Utilities and Regulation

The following is a list of broad industry trends that may significantly influence the role of utilities and the substance of regulatory oversight made necessary by this role. These trends are noted to stimulate discussion and analysis and do not, by their inclusion, represent direction that the Commission views as either especially likely or necessarily desirable.

- Attractively priced power products, or power supply of higher than average quality, may encourage some industrial customers of Washington utilities to choose a power supplier other than their current utility. The utility's system may be left with costs previously incurred to serve these customer loads (resource supply, distribution system and integration, system reserves, and conservation investments). The interests of the remaining customers, the departing customer, and utility shareholders will require balancing.

- Customers who choose to leave their utility may at some time in the future request the opportunity to resume taking service. The obligation of the utility to provide this service will need to be clarified.

- Restructuring the electricity industry in California may have implications for electricity markets across the entire Western United States. California faces large "stranded investment" issues. The solutions California fashions may adversely affect electricity customers in Washington -- for example, if markets force Northwest customers to bear any of the burden of stranded assets in California; if a West-wide POOLCO raises the average cost of power in the Northwest; or if Commission-regulated companies seek to sell low cost power to California to the detriment of captive customers.

- The restructuring or privatization of the BPA will have significant implications for the wholesale power market and the market for related, unbundled system integration services such as transmission, shaping, reserves, and voltage support. Appearance of these unbundled products may change the relationship between investor-owned utilities and the federal-based public power system.

- Substantial changes are being made to the operation of the Columbia River system, significantly reducing the energy and load-following capability of hydroelectric facilities on the Snake and Columbia Rivers. Substantial new generation facilities may be necessary to replace the base-load hydroelectric capacity. Will these resources be developed in a regionally coordinated manner, or is the notion of regionwide, centrally coordinated action inconsistent and unnecessary in a competitive electricity industry?

- An electricity industry organized around competition and market forces is likely to focus on both product differentiation and price competition. Conservation and renewable energy resources may minimize cost in the long run, yet increase prices in the short run. Will utilities in a competitive market invest to reduce long term costs? If conservation and renewable energy are preferred for environmental reasons, are utilities the appropriate entity to accomplish such environmental stewardship? If they are not, what other options should be considered?

- New generation technologies, such as site-specific solar, fuel cells, or small-scale gas-fired generation, may lead to a largely decentralized electricity system. More prevalent use of such technologies will have implications for reliability and cost-recovery in the wire-based transmission and distribution system.

We invite interested parties to consider these trends and then provide answers to the following questions. Please feel free to focus on developments and issues you feel are more likely to happen. If there are additional trends you believe are likely, or preferable, please describe them and incorporate them in your responses. Attachment A includes some more detailed questions that may help parties develop responses to these Part 1 questions. Detailed questions in Attachment A are examples only; do not feel the need to answer all or any as you respond to Part 1 of the Inquiry.

A-1. What are the key implications of these trends for the role of utilities under Commission jurisdiction?

A-2. What are the key implications of these trends for the role of regulation and the advantages and disadvantages of prescriptive versus market-based regulatory tools?

A-3. Does the Commission have sufficient authority to fashion regulatory tools that can adapt to meet the challenge of a changing industry?

B. Part 2: Review of Specific Regulatory Mechanisms

Respondents to the Inquiry are invited to provide detailed discussion and recommendations on the following questions concerning existing Commission regulatory tools. To the extent possible, please cast recommendations in the context of the broad trends considered in Part 1.

B-1. Should the Commission retain its requirement in WAC 480-100-251 for utilities to prepare and submit least-cost resource plans?

B-2. What changes would you recommend be made to the details of the least-cost planning rule? Why?

B-3. Should the Commission retain its requirement in WAC 480-170 for utilities to solicit competitive bids for new resources?

B-4. What changes would you recommend be made to the details of the competitive bidding rule? Why?

B-5. What cost-effectiveness test should the Commission use for the evaluation of conservation resources? Why?

B-6. Should the Commission consider external costs and benefits in its evaluation of investments in renewable and other resources? Why, or why not? If so, how would you recommend this be done?

B-7. Should the Commission modify its procedures and process for reviewing and establishing the prudence of utility investment in new electricity resources? In an industry marked by an increasing number of market transactions (including purchases and sales of power and energy related services), should prudence review be made more concurrent with transactions? What role should the least-cost plan and bidding process play in these reviews? Describe your recommendations in detail and explain why any changes would constitute an improvement.

B-8. Should the Commission adopt the integrated resource planning standard proposed and defined in EPACT Section 111 (see attachment C for proposed standard and definition)?

B-9. Should the Commission adopt the standard pertaining to utility investment in conservation and demand management proposed in EPACT Section 111 (see attachment C for proposed standard)?

B-10. Should the Commission adopt the standard pertaining to energy efficiency in power generation as proposed in EPACT Section 111 (see attachment C for proposed standard)?

B-11. Have we asked the right questions? Are there other inquiries we should undertake?

To aid respondents in preparing answers to these questions, a set of more detailed questions concerning the least-cost planning and competitive bidding regulations is attached (attachment B). The questions in this attachment are intended only to provide background about these regulations and some of the detailed issues they entail. We do not expect respondents to provide answers to all of the detailed questions in attachment B.

Written comments, bearing the above caption and docket number, should be submitted to Steve McLellan, Commission Secretary, no later than February 17, 1995. The Commission requests that commentors file an original and ten (10) copies of written comments. We also request that comments be provided on a 3 1/2 inch, high density "floppy" diskette, formatted in either ASCII or WordPerfect.

For more information regarding this Inquiry, please contact the following Policy Research staff: Jeffrey Showman, 206-586-1196, or Dick Byers, 206-753-3006. After evaluating comments, the Commission will schedule further proceedings in this docket.

DATED at Olympia, Washington, this 16th day of December 1994.

WASHINGTON UTILITIES AND TRANSPORTATION COMMISSION

SHARON L. NELSON, Chairman

RICHARD HEMSTAD, Commissioner

WILLIAM R. GILLIS, Commissioner

ATTACHMENT A

Example Questions Related to Part 1: The Role of Utilities and Regulation.

1. Less than one-half of the retail electricity market in Washington falls within the jurisdiction of the Commission. Consumer-owned utilities, and perhaps new market entrants, serve the remainder of the market. These providers are subject to planning and resource acquisition policies and requirements that may differ substantially from those the Commission places on the utilities it regulates. What actions and policies would you recommend the Commission pursue to ensure that the companies it regulates can compete fairly in Washington's electricity marketplace?

2. BPA may, under guidance from the regional power plan, act to develop, or to facilitate the development of, supply or demand resources in the Pacific Northwest. How do you believe this will affect the acquisition of resources by Washington utilities under the jurisdiction of the Commission? Will Bonneville's actions benefit or hinder the operation of a competitive wholesale power market in Washington? Should the Commission take any actions concerning the relationship between resources acquired by jurisdictional utilities and those acquired by Bonneville?

3. Is the existence of a vital and competitive wholesale power market, and full utilization of this market by utilities, sufficient to capture the full measure of benefits from competition in the electric industry? If not, should the Commission take actions to facilitate competition in retail service? Do you believe that providing such open access would yield benefits in Washington State? What benefits could be expected, or why would retail access not be beneficial to Washington?

4. If retail access should be permitted in Washington, how should the Commission exercise its authority to ensure that benefits and costs are equally shared by customers who leave utility service and those who do not? How does the statutory requirement that companies provide service to all persons and corporations reasonably entitled thereto affect this question?

5. A number of states, notably California, are considering or have adopted modifications to utility regulation that implement "performance-based ratemaking". A number of such systems have been discussed including rate caps; revenue caps; rate of return bands; and statistical comparison (yardsticks). Some of these are in practice in other countries. Should the Commission implement any of these procedures? Do you have a specific suggestion? How might such a mechanism improve regulation, or be responsive to structural change in the industry?

6. State policy provides for approaches that offer flexibility in electricity pricing. As companies focus on competitiveness (perhaps in response to self generation or municipalization, even in the absence of retail wheeling) they inevitably become more customer focused and interested in pricing flexibility. Should the Commission establish criteria for pricing flexibility and negotiated service levels? If so, what criteria and conditions would you recommend? How should the Commission fulfill its responsibility to ensure that pricing is not unduly discriminatory or preferential?.

7. As competition enters the industry, a key issue raised many places across the country has been "stranded assets". For instance, utility plant or other investments currently used to meet load obligations, but no longer competitive in cost with new technologies or alternative supplies. Do you believe there are examples of such non-economic assets in Washington? If competition were to strand these assets, how would you recommend they be treated.

8. Some have suggested that a fully competitive electricity industry would be characterized by distinct separation of the ownership and control of generation, transmission, and local distribution. What is your opinion of the advantages and disadvantages of such an industry structure?

ATTACHMENT B

Example Questions Related to Part 2: Specific Regulatory Tools

Utility Resource Planning:

1. Should the Commission continue to require jurisdictional electric companies to submit a least-cost plan for utility resource acquisition every two years which has been prepared with open public input? If yes, what benefits does this process provide? If not, why not? What alternative would ensure that conservation and renewable resource alternatives are thoroughly considered in resource decisions?

2. The Commission now acknowledges plans as being consistent with the rule; should we go further, and approve the substance of plans? If so, how would you see such approval being considered in subsequent regulatory review? How would this affect our ability to subsequently fully examine and judge the prudence of utility expenditures for specific resources when such resources are only considered in generic terms in resource plans?

3. The current least-cost planning rule establishes the scope of planning to be "the mix of resources that will meet current and future needs at the lowest cost to the utility and its ratepayers". Most least-cost plans have focused on the cost of resources to meet incremental load. In some cases, displacement of existing resources with new resources might lower the total cost to meet load. Does the current rule accommodate consideration of such resources? Should the rule be more prescriptive to emphasize that plans consider all resources (new and existing) and the opportunities for new resources to replace existing resources at lower total cost?

4. The current least-cost planning rule does not address the role that development or dispatch of new or existing resources for the wholesale market might play to increase ratepayer value or improve service. Should the scope of least-cost plans be expanded to consider wholesale power marketing? If so, how?

5. In a more competitive industry, is it reasonable to expect companies to maintain an open and candid planning process? Does the requirement of open planning present a competitive disadvantage? If not through open planning, how should utility customers and others affected by utility action be educated about utility plans and afforded the opportunity to comment?

6. The current planning rule provides for a financial perspective that represents the "utility and its ratepayers". Should the Commission establish an economic perspective that considers costs and benefits that fall outside the utility's service territory (for example, taxes, environmental cost, other external costs)? If so, what perspective would you recommend, and why?

7. As greater competition enters the industry, we may see the traditional long term perspective of utilities be shortened, so that minimizing short-run prices may take precedence over minimizing long term cost. The current planning rule requires a 20 year planning horizon and a two year action plan. Should the planning horizon be shortened? If so, how should conservation, renewables, nuclear, and coal -- which all have a high ratio of capital cost to operating cost -- be compared equitably with alternative resources such as natural gas turbines which have low capital-to-operating cost ratios?

8. The current planning rule focuses on generating and efficiency resources for meeting customer needs. Recent research conducted by the Electric Power Research Institute and others has indicated that significant reductions in total system cost can be achieved by considering the interaction of resource development (supply or demand) with the local distribution and transmission systems. Should the Commission expand the scope of least-cost planning to include consideration of distribution and transmission system costs?

9. Two proposals for regional transmission groups (RTGs) have recently been filed with the Federal Energy Regulatory Commission. Washington companies are included in filings for both the west-wide group and the regional northwest group. Should utility least-cost resource plans consider the interrelationship between resource planning and transmission planning?

Acquisition of Resources:

1. The Pacific Northwest has a growing and vital wholesale power market. The Commission's competitive bidding rule was enacted, in part, to encourage utilities to take advantage of opportunities offered by this market. Should the Commission continue to require jurisdictional companies to solicit bids for non-utility resources to meet load? If yes, what benefits does this requirement achieve? If not, how should the Commission ensure that utilities take full advantage of all opportunities available in the wholesale market?

2. The current bidding rule requires that utilities issue solicitations in conjunction with their least-cost plan. Currently this means that resource solicitations are issued every two years. Is this schedule appropriate?

3. Some have raised the complaint that frequent resource solicitations which do not result in utilities actually selecting and negotiating a project, amount to nothing but a hollow process -- window shopping. It is conceivable that this could hinder the functioning of a viable wholesale power market. Should utilities be required to issue solicitations only when they intend to acquire a resource, and should they be required to negotiate a project selected from those offered in response? If not, how can the process be assured of garnering valid bids in the absence of sincere solicitations?

4. The Commission's bidding rule may serve to facilitate the development and functioning of a vital wholesale power market. Are there other actions the Commission could take to encourage such a market (such as promoting easy access to the transmission system via understandable and predictable transmission pricing)?

5. Currently the Commission evaluates the cost-effectiveness of conservation investments with a "total resource cost test". This test endeavors to consider all of the costs (both utility and participant contributions) with utility sponsored conservation measures and all of the benefits associated with the measure. If the total benefits (including avoided expenditure for an alternative resource) exceed the total cost, the measure(s) are considered cost-effective. In anticipation of increasing competition, some have suggested that utilities should determine cost-effectiveness based on rate impact measures, utility cost tests, or other approaches. Should the Commission continue to use the total resource cost test? If not, why not? If the total resource cost test is to be replaced, what test would you recommend and why.

Regulatory Process and Prudence Review:

1. Least cost planning is a process by which the Commission requires companies to plan thoroughly for a mix of resources whose typical costs combine to yield the lowest total for meeting customer needs. The bidding process encourages utilities to go to the market to secure the best deal for resource projects consistent with their least-cost plan. Ultimately, the Commission must judge whether the money actually spent by a utility, for a specific contract or project, was expended prudently and thus fair to include in rates. The Commission currently considers both the least-cost plan and bidding results along with all other relevant factors when reviewing the prudence of a specific resource investment. Do you have suggestions about how the least-cost plan and bidding results should weigh in such evaluations?

2. As the utility industry becomes more open and competitive, we may see many more market transactions: short- and long-term power purchases, sales and exchanges, and transactions involving capacity, system integration or other non-power services. The Commission needs to review these transactions for their impact on ratepayers. Would you recommend that we modify our prudence review process to be more closely aligned in time to the transactions utilities may enter? If yes, how?

ATTACHMENT C -- EPACT

Section 111 of EPACT set three new federal standards for electric utilities and required state utility commissions to consider adopting these standards. The EPACT amended the Public Utility Regulatory Policies Act (P.L. 95-617; 92 Stat. 3117; 16 U.S.C. 2601) at section 111(d) to include these three standards numbered seven, eight, and nine.

(7) Integrated Resource Planning -- Each electric utility shall employ integrated resource planning. All plans or filings before a State regulatory authority to meet the requirements of this paragraph must be updated on a regular basis, must provide the opportunity for public participation and comment, and contain a requirement that the plan be implemented.

(8) Investment in Conservation and Demand Management -- The rates allowed to be charged by any State regulated electric utility shall be such that the utility's investments in and expenditures for energy conservation, energy efficiency resources, and other demand side management measures are at least as profitable, giving appropriate consideration to income lost from reduced sales due to investments in and expenditures for conservation and efficiency, as its investments in and expenditures for the construction of new generation, transmission and distribution equipment. Such energy conservation, energy efficient resources and other demand side management measures shall be appropriately monitored and evaluated.

(9) Energy Efficiency Investments in Power Generation and Supply -- The rates charged by any electric utility shall be such that the utility is encouraged to make investments in, and expenditures for, all cost-effective improvements in the energy efficiency of power generation, transmission and distribution. In considering regulatory changes to achieve the objectives of this paragraph, State regulatory authorities and non-regulated electric utilities shall consider the disincentives caused by existing ratemaking policies, and practices, and consider incentives that would encourage better maintenance, and investment in more efficient power generation, transmission and distribution equipment.