

Service Date: September 4, 1996

DEPARTMENT OF PUBLIC SERVICE REGULATION  
BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF MONTANA

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IN THE MATTER OF the Submission of )	UTILITY DIVISION
PacifiCorp ' s 1996 Integrated Electric )	
Least Cost Resource Plan. )	DOCKET NO. D95.11.177
)	ORDER NO. 5939

FINAL ORDER

Background

1. The Montana Public Service Commission ' s (PSC or Commission) Integrated Least Cost Resource Planning guidelines require PacifiCorp (PacifiCorp of Company) to file an integrated resource plan in May of each even numbered year. ARM 38.5.2012. However, because of its resource planning cycle, which does not coincide with the filing schedule in the PSC ' s rules, PacifiCorp filed its RAMPP-4 resource plan on November 24, 1995.

2. On March 28, 1996, the PSC issued a Notice of Filing, Notice of Comment Deadline and Notice of Opportunity for Hearing. The Montana Consumer Counsel (MCC) and the Montana Department of Environmental Quality (DEQ) submitted written comments in June 1996. No requests for hearing were received.

3. The PSC retained a consultant to evaluate PacifiCorp ' s RAMPP-4 and the written comments. The Consultant provided her report to the PSC on July 15, 1996.

4. PacifiCorp ' s RAMPP-4 is titled *Flexible Choices for a Changing Environment*. The plan consists of the RAMPP-4 Report, including a three-year action plan, an Executive Summary and two technical appendices.

5. RAMPP-4 differs from RAMPP-3 in several ways. First, RAMPP-4 is not a stand-alone document. RAMPP-4 involved an abbreviated process which was intended to reaffirm and update the RAMPP-3 results. Second, RAMPP-4 considered only 39 possible resource plans, compared to 155 in RAMPP-3. Fewer alternative resource plans were developed

because of the shorter planning process and because PacifiCorp believes that 39 cases allow it to adequately reconfirm the lessons learned from RAMPP-3 and, at the same time, provide additional information on recent issues and concerns.

6. According to PacifiCorp, the most significant finding of the RAMPP-4 process is that the Company does not need to make any new resource decisions during the three-year action plan period. The only new resources PacifiCorp plans to acquire during the next three years are demand-side resources. PacifiCorp has proposed to monitor, during the action plan period, a set of eight benchmarks. If any one of these benchmarks are triggered, the Company would re-evaluate its planning assumptions and action plan. The eight benchmarks are:

1. load growth for 1995 is below 1.5 percent;
2. load growth for 1995 is greater than 2.5 percent;
3. natural gas price forecast is 0% real escalation or less;
4. natural gas price forecast is 4% real escalation or more;
5. non-firm market prices fall by 25% or more from 1995 levels;
6. non-firm market prices rise by 25% or more from 1995 levels;
7. the Federal government passes some form of CO<sub>2</sub> controls or tax;
8. a renewable technology achieves costs that are within 10 percent of the cost of acquiring gas-fired resources at the time a decision would be made.

#### Summary of Written Comments

Montana Consumer Counsel

7. MCC's comments focused on demand-side management, transparency and the RAMPP-4 action plan. Regarding DSM in RAMPP-4, MCC states that its concerns about how DSM was modeled in RAMPP-3 have been addressed in RAMPP-4 and that it agrees with PacifiCorp's selected penetration rate and acquisition level. MCC states that it supports the benchmark approach, described above, and recommends that the Commission encourage the Company to pursue this approach.

8. MCC states that RAMPP-4 lacks transparency in two areas. First, the plan's technical complexity leads to transparency problems; second the Company does not select any one resource plan as a preferred plan.

9. MCC concludes that PacifiCorp has, overall, complied with the PSC's resource planning guidelines. If the Commission identifies any deficiencies with PacifiCorp's plan, MCC recommends that the Company be directed to address the deficiencies in RAMPP-5.

#### Department of Environmental Quality

10. DEQ recommends strongly that PacifiCorp's resource planning and acquisition process remain transparent. DEQ states that PacifiCorp should be required to make its IRP process transparent and subject to regulatory review as long as the Company remains a vertically integrated utility.

11. DEQ recommends that the Commission approve the resources explicitly identified in RAMPP-4, with continued approval subject to future market conditions. These resources include DSM, system efficiencies, turbine upgrades, Hermiston and the APS CTs. DEQ recommends that the Commission require PacifiCorp to brief the Commission and the RAMPP Advisory Group about any resource changes that the Company may pursue that are not specifically identified in RAMPP-4.

12. In addition to the above recommendations, DEQ's comments include several other specific recommendations for Commission action, including:

- ! require PacifiCorp to file a restructuring proposal which would address the evolution of its IRP and specify its strandable costs;
- ! require PacifiCorp to include in RAMPP-5 more detailed cost analyses of efficiency improvements to thermal and hydro plants and transmission and distribution systems;
- ! require PacifiCorp to re-evaluate the transmission constraints in its computer model.

### Commission Response

13. In Final Order 5839, Docket No. 94.4.19, the PSC determined that PacifiCorp's RAMPP-3 reflected a comprehensive and detailed resource planning process. Nevertheless, the Commission found that there were areas in which the plan was inconsistent with the planning and acquisition process established by the PSC's guidelines.

14. PacifiCorp states that its RAMPP-4 process aims to minimize costs and risks to customers, and provide value to the Company's shareholders. The Company states that its goal is to achieve the lowest possible cost in providing electricity services to customers while recognizing the appreciable uncertainties affecting future power requirements and power resources.

15. The Commission finds that many of the concerns and issues raised by its response to RAMPP-3 have not been adequately addressed in RAMPP-4. For example, the most significant difference between RAMPP-3 and RAMPP-4 is the way the Hermiston cogeneration facility is treated. In RAMPP-3 PacifiCorp stated that it was proceeding to acquire power from the 474 MW Hermiston facility; but the Company did not evaluate Hermiston in its IRP process, either as part of its existing system or in comparison to the portfolio of other available resources the Company had identified. Instead the Company ran a sensitivity analysis in which the computer model was allowed to decide when to bring Hermiston on line.

16. In the Commission's RAMPP-3 proceeding several parties submitted comments criticizing the Company's failure to subject Hermiston to a comprehensive resource planning review. In its Response to RAMPP-3 the Commission indicated that it shared these parties concerns. The Commission stated that acquisition of Hermiston outside of the RAMPP process eliminates any prospective review of the resource by the public and the Commission and makes determining retrospectively the prudence of PacifiCorp's action more difficult.

17. In RAMPP-4 Hermiston is considered part of the PP&L's existing system, as is the output of several combustion turbines to be installed by Arizona Public Service Company (APS). The Commission questions whether the Hermiston facility and the APS CTs are necessary and cost effective in the short-term and whether likely future market conditions will

prove the resources needed and cost effective in the long-term. With respect to the need for these resources, RAMPP-4 indicates that without Hermiston, the PacifiCorp system would not experience capacity deficits until Summer 1999 and Winter 2002. Annual energy deficits would not occur until 2002. Even after these initial deficits appear it isn't until summer 2002 and winter 2003 that the entire Hermiston capacity is used.

18. The Commission also questions the cost effectiveness of Hermiston given the current surplus of low cost capacity and energy in the Northwest. RAMPP-4 shows that resource plans that do not include Hermiston are not significantly different from plans that do, in terms of total costs and average rates. Furthermore, the resource plans that do not include Hermiston rely heavily on constructing combustion turbines. The Commission believes that Hermiston's cost effectiveness also should have been evaluated by considering plans that rely more on mid-term firm and non-firm market purchases. Finally, while PacifiCorp did not report the fixed and variable costs of operating Hermiston in RAMPP-4, costs reported in RAMPP-3 indicated that Hermiston's energy costs were about 21 mills per kWh. This compares to RAMPP-4 estimates of non-firm market energy prices of 18-19 mills per kWh on-peak and 14-16 mills per kWh off-peak.

19. If the Commission determines that a utility's resource plan does not comply with the Commission's guidelines, Montana statutes require the Commission to provide the utility a list of deficiencies. With respect to RAMPP-4, the Commission is most concerned with the continued lack of transparency surrounding PacifiCorp's acquisition of Hermiston and the APS CTs. The Commission's guidelines state that new resources should only be acquired when needed and in a manner consistent with the guidelines. The lack of transparency surrounding PacifiCorp's acquisition of Hermiston limits the PSC's ability to completely determine whether this new resource is consistent with the goals of the Commission's resource planning guidelines. A similar situation appears to be developing with respect to the APS CTs. Given available information, the Commission is concerned that acquisition of Hermiston may be inconsistent with minimizing total societal costs consistent with the PSC's resource planning guidelines.

Deficiencies and Recommendations for PacifiCorp's Next Plan

20. The Commission finds PacifiCorp's RAMPP-4 inconsistent with several of the Commission's integrated least cost resource planning guidelines as follows. Also identified are several issues which the Commission recommends PacifiCorp address in its next planning cycle.

1. RAMPP-4 was based, in part, on an assumption that the Hermiston Cogeneration facility is an existing resource in PacifiCorp's portfolio. However, Hermiston was not thoroughly evaluated using integrated resource planning principles in an open and public process. Further, the near- and long-term need for Hermiston has not been adequately demonstrated and documented. As a result, RAMPP-4 is inconsistent with ARM 38.5.2006.
2. The transparency issues surrounding Hermiston and the APS CTs, as well as PacifiCorp's failure to adequately demonstrate and document the near- and long-term need for Hermiston, causes RAMPP-4 to be inconsistent with the societal cost provisions of ARM 38.5.2001, 2007 and 2010.

21. The electric industry is in the midst of significant change. DEQ recommended that the Commission direct PacifiCorp to file a restructuring proposal that would address the evolution of the RAMPP process and quantify strandable costs. The Commission agrees with DEQ that the nature of IRP must change with electric industry restructuring. Any PacifiCorp restructuring proposals will be addressed in the context of the Commission's electric restructuring NOI, Docket No. 95.7.96, or a specific PacifiCorp proceeding. In the meantime, PacifiCorp should continue its RAMPP process and make it as transparent as possible to its customers, regulators and the public.

22. The Commission supports PacifiCorp's proposal to monitor, during the RAMPP-4 action plan period, a set of benchmarks and, if any of the benchmarks are triggered, to re-evaluate its planning assumptions and action plan. In addition to the Company's proposed benchmarks, the PacifiCorp should incorporate three additional benchmarks into its proposal:

1. The Company has indicated its intention to continue to pursue additional cost-effective resources that meet the future needs of the Company. If PacifiCorp becomes serious

about acquiring a new resource, other than DSM, within its three-year action plan period, the Company should inform the Commission and evaluate the impacts of acquiring the resource on the action plan;

2. PacifiCorp should re-evaluate the appropriateness of its action plan in light of any significant federal or state actions that may impact industry structures (e.g., FERC Order 888).
3. PacifiCorp should communicate to the Commission any intentions to change the RAMPP-4 DSM targets and should re-evaluate the action plan in light of the new DSM targets.

23. Finally, the Commission agrees with DEQ that PacifiCorp should include in its next plan a more detailed cost analysis and discussion of potential efficiency improvements to thermal and hydro plants and to transmission and distribution systems. PacifiCorp should also re-evaluate with its advisory group the way it models transmission constraints.

#### Conclusions of Law

1. PacifiCorp is a public utility subject to the jurisdiction of the Montana Public Service Commission pursuant to Title 69, Chapter 3, MCA.
2. The Montana Public Service Commission may require public utilities providing electric service to file plans for meeting the requirements of its customers (integrated least cost plans) in the most cost effective manner consistent with the utility's obligation to serve. § 69-3-1204 (1), MCA.
3. The Montana Public Service Commission may adopt guidelines to be used in preparing integrated least cost resource plans. § 69-3-1204 (3), MCA.
4. If integrated least cost plans do not meet the requirements of the Commission's guidelines, the Commission must return the plan to the utility with a list of deficiencies and a time certain to submit a corrected plan. § 69-3-1204 (3), MCA.
5. The Montana Public Service Commission has adopted integrated least cost planning guidelines. ARM 38.5.2001-2012.

Order

1. PacifiCorp is hereby directed to make every effort to incorporate any suggestions and comments made in this order into its next integrated least cost resource plan. PacifiCorp's next plan will be considered its corrected plan pursuant to § 69-3-1204 (3), MCA.

2. This Docket is hereby closed.

DONE IN OPEN SESSION AT Helena, Montana, on this 20th day of August, 1996, by a  
4 - 1 vote.

BY ORDER OF THE MONTANA PUBLIC SERVICE COMMISSION

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NANCY McCAFFREE, Chair

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DAVE FISHER, Vice Chair

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BOB ANDERSON, Commissioner

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DANNY OBERG, Commissioner  
Written Dissent Attached

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BOB ROWE, Commissioner

ATTEST:

Kathlene M. Anderson  
Commission Secretary

(SEAL)

NOTE: Any interested party may request that the Commission reconsider this decision. A motion to reconsider must be filed within ten (10) days. See 38.2.4806, ARM.

## Dissent of Commissioner Danny Oberg

Order No. 5939

I respectfully dissent from the findings of the majority. As we enter into the new electric utility environment, it is my belief that Integrated Resource Planning becomes more important rather than less important. However, the oversight of the regulator in this matter is diminished as ultimately the marketplace will become the judge of the utility's success or failure in that evaluation.

It is my opinion that the regulator must be extremely cautious in not micro-managing the utility in this environment. As the market develops and customers exercise choice the utility needs flexibility to respond in appropriate ways. I believe the company's proposal in this year's plan does an admirable job of doing that.

While the regulator has responsibilities to advise and evaluate the company's planning process under IRP rules I am concerned that the majority order errs in ordering the company to report on any acquisitions within the three-year period. I believe that takes the Commission down a slippery slope that may be interpreted as preapproval in a future rate proceeding. If the Commission is advised and fails to respond then the utility would have a strong case in a future rate proceeding for rate base approval.

I would have supported the order had it limited itself to the cautionary notes and only asking for updates I would have been more comfortable with the findings.

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Danny Oberg  
Commissioner