BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

LC 42

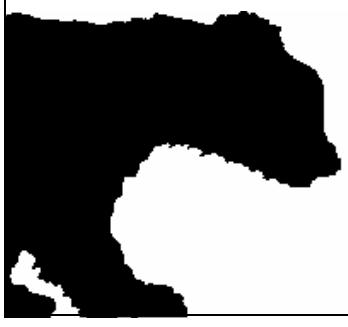
In the Matter of	)
PACIFICORP,	)
2007 Integrated Resource Plan.	)

OPENING COMMENTS

OF THE

CITIZENS' UTILITY BOARD OF OREGON

September 19, 2007



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I. If PacifiCorp Builds Pulverized Coal, It Takes The Carbon Risk

CUB wonders if we are collectively mature enough in the regulatory process to recognize that integrated resource planning is as much an exercise in justifying a utility's preferred business plan as it is in objectively determining the least-cost and least-risk resource plan. We think, perhaps, that PacifiCorp's 2007 IRP has come down too heavily on the former, defending the shareholder vision, instead of protecting customers' long-term interests. We appreciate the difficult issues PacifiCorp needs to tackle – from serving increasing load, to working around transmission constraints, mediating different world views from the states that it serves, and showing healthy returns for its owners – but the types of resources that populate PacifiCorp's preferred portfolio (Table 1.3) create a considerable risk from future carbon regulation that it would be unacceptable to ask customers to bear.

Oregon customers continue to foresee, with near certainty, some form of relatively stringent carbon regulation within the time frame of this IRP. Given this expectation, it would be unreasonable for anyone but the utility's shareholders to bear the carbon risk of any new pulverized coal resources that the utility chooses to build. Taking into account the inexorable approach of serious carbon regulation combined with PacifiCorp's existing carbon exposure, one would think that PacifiCorp would be in the vanguard of those developing clean energy policy in order to avoid the potentially-crippling liability from a new pulverized coal plant.

With regard to CO_2 emissions, the resource mix pie charts on page 9 of the IRP are visually misleading. The eye says that, on a relative basis, there would be less pulverized coal as a percentage of the Company's resource mix in 2016 (43.4%), as a result of the preferred portfolio, than there is in 2007 (64.8%). The brain, however, should intervene and significantly increase the entire size of the 2016 pie, as the utility's load is forecast to be much higher. The brain should recognize that the total CO_2 emissions from the 43.4% of load served with pulverized coal generation in 2016 is significantly higher on an absolute basis than the CO_2 emissions from the 64.8% of a smaller load served with pulverized coal in 2007. This is because PacifiCorp's proposed IRP would add nearly 900 MW of new pulverized coal generation to the Company's resource mix.

Before we address two areas of concern, we note the frustration of Steve Weiss of the NW Energy Coalition (NWEC), who says in comments filed today that the PacifiCorp IRP is modeling through a black box that includes numerous unstated

assumptions, and spits out counterintuitive results. If the model is non-transparent enough to irritate Steve, who loves this stuff, then something is wrong.

II. The "Five Group 2 Analysis" & Cap And Trade

In developing its first risk analysis portfolio (RA1) to serve as a performance benchmark for the other risk analysis portfolios, the capacity expansion module used the "medium case" alternative future (CAF11). IRP, p. 153. We will let others criticize the 8$/ton CO_2 assumption used for that medium case. From the risk analysis portfolios, a second group of five portfolios was developed using feedback during the public process (RA13 to RA17). Due to how the portfolios were developed, all of the portfolios have at least two pulverized coal plants as part of the resource portfolio, and RA13 has four.

PacifiCorp tested these portfolios against both a carbon tax scenario and a cap and trade scenario. IRP, p. 186. The results of the portfolio comparisons in the cap and trade case revealed some assumptions that we found disturbing.

A. The Cap And Trade Design Does Not Have A Declining Cap

First, the cap and trade design assumed in the IRP is a cap of 2000 levels with no decline in allowed emissions from that point forward. IRP, p. 133, and Attachment A, PacifiCorp response to NWEC data request 8a. Any serious cap and trade proposal worthy of consideration in today's environment contains a declining cap on allowable emissions. See UM 1302 Opening Comments of CUB, EMO, NWEC, RNP, 4-10. So this exercise is not terribly informative.

B. The Cost Of Portfolios With Two New Coal Plants Doesn't Rise With CO_2 Cost

Second, the results of the runs provide some interesting results. The present value of revenue requirement for the four portfolios with two new pulverized coal plants stayed the same or even decreased as the cost of CO_2 rose from \$0/ton CO_2 to \$61/ton. This occurs, we think, for a couple of reasons. Looking at Attachment A, in this modest cap and trade scenario, the actual CO_2 emissions from the PacifiCorp system goes down from a high in 2007 (Tons Actual from the PaR) and does not reach 2007 levels again until 2025, by reducing the Company's CO_2 emissions below the assumed carbon cap (Allowance Value).

This means that: 1) either the model is reducing the electricity generated by existing coal plants in order to sell allowances into the market; or 2) the model is selling the electricity from the coal plants into the market under the presumption that someone else will take the burden of those CO_2 emissions. Under the first possibility, it is hard to imagine that a portfolio which includes two new pulverized coal plants can be the least-cost, least-risk path, if, under the most modest of cap and trade regimes, PacifiCorp would turn coal plants off almost as soon as the new plants came online.

C. Will Pulverized Coal Electricity Be The Same Price As Gas or Wind Electricity?

Third, if PacifiCorp's assumption is that the Company's system emissions would go down because PacifiCorp would sell the electricity from its coal plants to other buyers, and that this electricity would take with it the related emissions, this raises other problems. It is not clear whether the model sells the pulverized coal output for the same price as the assumed cost of the cleaner energy that the Company would be buying. Unlike sales in an emissions performance standard world, where contracts under five

years' duration may not fall under the law, and thus would not suffer any price discrimination, under a cap and trade regime, every kWh served to the end user would probably require emissions reporting.

Therefore, it is logical to assume that the sale of electricity from pulverized coal would face obstacles on the wholesale market. There might even be the risk that, over the lifetime of its coal fleet – now extended 40 years or so by the proposed new pulverized coal plants – there would be no buyers for the output of PacifiCorp's coal plants.

D. The Ethics & Economics Of A Carbon-Laundering Strategy

Fourth, there is both an ethical and an economic problem with using captive customers to pay in ratebase for coal plants that PacifiCorp will use to sell to others. If, by increasing its coal resources in a modest cap and trade world, we are really building merchant plants to sell CO_2-heavy electricity into the market, customers and regulators need to ask if this is an appropriate use of the regulatory paradigm. Even if it were true that PacifiCorp could carbon-launder the electricity from the Company's system by selling coal output and purchasing a cleaner equivalent amount of electricity, should the regulatory system endorse such behavior? And what are the economic consequences if this carbon-laundering strategy fails? PacifiCorp assumes that it is the user of the energy who falls under the cap requirement, and this assumption is a fairly good one if we think of a load-based regulatory regime. However, Congress has not yet decided on a regulatory regime, and, over time, regulations may morph. Can we not imagine a scenario where the owners of the coal plant are considered to have the ultimate responsibility for that plant?

In short, the carbon cap and trade model runs tell us little about how the preferred portfolio will fare in such a regulatory environment and a lot about the unrealistic assumptions underlying the analysis. Customers should not be asked to take the risk that these unrealistic assumptions will resemble the actual outcome caused by building two new pulverized coal plants.

III. The Oregon Renewable Energy Standard & PacifiCorp's MSP

While it may be argued that the IRP is looking at the least cost for the system, we are not convinced that it is looking at the least-cost, least-risk path for Oregon customers. The resource pie chart on page 9 shows that, by 2016, 8.5% of PacifiCorp's system energy mix will be from renewable generation. SB 838, recently passed by the 2007 Oregon Legislative Assembly and signed into law by the Governor, requires that 15% of the electricity sold by PacifiCorp to the Oregon consumer must be from a renewable source by 2016. Under the Revised Protocol, PacifiCorp's system resources (of which 8.5% are renewable) are allocated system-wide, so that Oregon would get 8.5% of its energy from renewable resources. In order to meet the renewable energy standards of Oregon, Washington, and California, PacifiCorp would either have to make additional investments in renewable energy beyond what is included in the Company's IRP, purchase a lot of green tags (the amount of which is limited in the Oregon law), or reallocate Utah and Wyoming's share of the system renewable resources to the Western states.

This latter proposition, the one which we assume is the default position, is fraught with risk and potential cost. Between now and 2016, it seems likely that, either Utah will pass a state renewable energy standard or Congress will pass a national renewable energy

standard. In either eventuality, Utah will assume its allocated share of the renewable resources on fairly short notice, and suddenly PacifiCorp would go from meeting the Oregon standard to falling 50% short of the requirement. PacifiCorp's default position seems to be a fairly risky wager with potentially very expensive consequences.

While we are not convinced that the IRP meets Oregon's renewable energy standard in a least-cost way without engendering significant risk that Utah will one day claim its share, at the same time, the IRP is asking Oregon to buy 25% of two new pulverized coal plants, which are largely needed to serve growing load on the east side of PacifiCorp's system. We believe that the IRP does not meet the standard of least-cost and least-risk for Oregon customers.

IV. Coal Is Getting Harder To Build

We are not intimately familiar with the assumptions PacifiCorp used to model its IRP in terms of the timing and cost of siting and permitting its proposed new pulverized coal plants. However, even without comprehensive state or federal carbon regulation, the process of siting, permitting, and building a coal plant stands to get considerably longer, more expensive, and more contentious than it has been in the past. Around the country we see public outrage and opposition directed at proposed coal plants. The public's concern over local air and water quality, local and global environmental impacts, and aesthetic issues is growing, and that concern presents higher hurdles for the development of coal plants. Even in Montana, a state that could enjoy economic benefit from the development of coal, there is substantial opposition to a new coal-fired generating unit. Clearing Up, Sept. 17, 2007, No. 1305, p. 10-11.

We believe that building new coal plants will become more and more difficult as time goes on. There is a very real possibility that pursuing a path of new pulverized coal plants will lead nowhere, and that ultimately the plants will be unable to overcome local, state, regional, national, and/or international pressure to stop building coal plants. Therefore, we are not convinced that the true costs of a new pulverized coal plant have been included in the model.

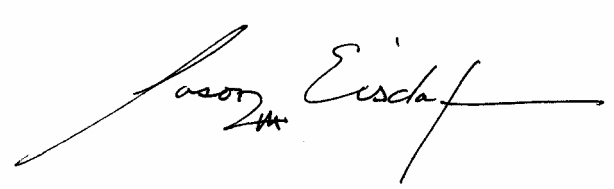
V. Conclusion

We believe that PacifiCorp's analysis is seriously flawed for a number of reasons:

- The base carbon price of $8/ton is unrealistically low;
- The modeling process and assumptions used by PacifiCorp in the development of its IRP are unclear at best, and technically questionable in light of some counterintuitive results produced by the model;
- Any strategy to build a new pulverized coal plant with the intent, stated or underlying, of carbon-laundering the electricity produced by that plant presents regulatory and ethical issues that the IRP has not addressed;
- Were PacifiCorp to proceed with building a new pulverized coal plant, it would be leaving some pretty large risks on the table with regard to the allocation of system renewable resources in an already contentious multi-state process, including the Company's ability to meet its obligations to provide renewable electricity in Oregon, Washington, and California;
- The previous concern is compounded by potential future carbon regulation governing other parts of PacifiCorp's service territory; and
- The public's concern over the construction of new coal plants, for a variety of reasons, stands to make the construction of new pulverized coal plants increasingly difficult through longer lead times and more contentious and costly permitting processes.

In light of this, we recommend that the Commission not acknowledge PacifiCorp's proposed new pulverized coal plants as a least-cost, least-risk plan to serve Oregon.

Respectfully Submitted,
September 19, 2007



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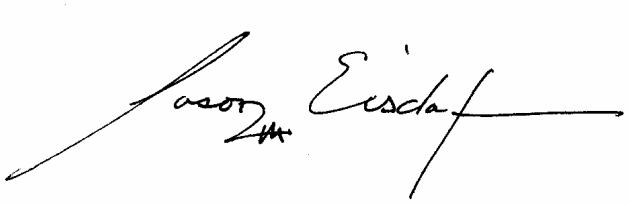
CERTIFICATE OF SERVICE

I hereby certify that on this 19th day of September, 2007, I served the foregoing Opening Comments of the Citizens' Utility Board of Oregon in docket LC 42 upon each party listed below, by email and, where paper service is not waived, by U.S. mail, postage prepaid, and upon the Commission by email and by sending 6 copies by U.S. mail, postage prepaid, to the Commission's Salem offices.

Respectfully submitted,



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