

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

LC 52

In the Matter of
PACIFICORP dba PACIFIC POWER
2011 Integrated Resource Plan

Renewable Northwest Project's Reply to
Staff's Final Comments and Draft Order

Renewable Northwest Project ("RNP") values the emphasis that Staff's Final Comments and Draft Order place on the two most significant initiatives that have emerged from this review of PacifiCorp's integrated resource plan ("IRP"). One initiative seeks to stop PacifiCorp from pursuing its coal continuation strategy past the point of no return, before offering transparency to stakeholders and regulators. The other seeks to avoid commitment of customer dollars to yet another combined cycle combustion turbine ("CCCT") before PacifiCorp has exhausted demand-side management ("DSM") and market alternatives to meeting peak needs. RNP appreciates the work that intervenors and Commission Staff have put into both of these important efforts.

While RNP values Staff's thorough review and critique of the supplemental coal study, we are united with the Citizens' Utility Board ("CUB"), Sierra Club, and NW Energy Coalition ("NVEC") in opposition to Staff's recommendation to start over on the coal analysis in the March 2012 IRP update. The time to avoid these costs is running short; giving PacifiCorp another six months to obscure unit-by-unit information and bake still-avoidable, not-yet-approved expenditures into the analysis does not serve ratepayers. The Commission should instead convene a technical workshop to define the exact parameters of a meaningful evaluation, and require PacifiCorp to conduct that analysis before this IRP

is acknowledged. Dogged pursuit of the right coal analysis is the only way to know whether customers can benefit from avoiding long-term commitments to the last century's generation portfolio as a new energy era approaches.

RNP commends Staff's thorough and determined analysis of DSM and market alternatives to the 2016 CCCT addition, and strongly supports its recommendation that PacifiCorp be required to exhaust those alternatives before pursuing another CCCT. Staff's appreciation for the benefits of optionality, flexibility, and diversity is apparent from its rigorous analysis and strong recommendation. RNP also appreciates and supports Staff's proposal that, in future analyses, PacifiCorp better document why a CCCT is the least cost choice to fulfill a capacity need and also better measure and evaluate the relative flexibility benefits of various resources and operating practices. RNP's interest in this issue stems from our concern that overbuilding CCCTs for baseload energy may diminish PacifiCorp's ability to serve customers from low-cost, diverse sources of renewable energy, and because we are not certain that CCCTs provide the best flexibility benefits for integration.

In sum, on the two most critical issues in this IRP, RNP values Staff's analysis and agrees in many respects, but believes that this IRP—not the IRP update—is the place to achieve transparency on coal expenditures.

A. Three Issues for Further Consideration

The above issues are foundational in this IRP and for PacifiCorp's portfolio as a whole; they deserve the bulk of the Commission's attention. Yet RNP respectfully requests that the Commission also reconsider Staff's recommended direction on three topics that, while perhaps second-tier in this IRP, will set the conditions for PacifiCorp to move toward a flexible, diversified generating portfolio.

First, RNP believes that Staff's approach to evaluating transmission additions may be evolving in an overly narrow direction. The Commission should encourage whatever collaboration between Staff, PacifiCorp, and stakeholders may be necessary to achieve full recognition of what Staff calls the "non-economic" benefits of transmission. Second, while RNP appreciates Staff's emphasis on the potential for flexibility to reduce variable energy integration costs over time, and its efforts to improve PacifiCorp's integration study process, we believe that Staff may damage productive engagement and encourage cost inflation by signaling that comments on actual wind integration study content have no place. Third, RNP is concerned that Staff's recommended approach for geothermal resources is essentially the same approach that hasn't worked in the past. RNP does not want to see the Commission pass up the opportunity to encourage real movement toward diversity with a geothermal-only request for proposals ("RFP").

1. Emerging Analysis of Transmission Segments May Overvalue Precision.

Staff seems to be settling on a generic approach to evaluating transmission additions. The approach first compares the "economic benefits" of each transmission segment—*i.e.*, the benefits to which the utility has assigned dollar values, here limited to variable production cost savings and transmission revenues—to the segment's costs. The resulting cost-benefit ratio (greater or less than 1) is a bright line determinant of whether Staff recommends acknowledgment. Although Staff then lists "non-economic benefits" of each transmission segment (such as reliability and redundancy, present and future load service needs, access to markets, and FERC rules), it effectively ignores those important benefits for analytical purposes. Using this approach, Staff concludes that two of the three transmission segments for which PacifiCorp requested acknowledgment do not measure

up—at least until PacifiCorp provides an analysis “quantifying” the “non-economic” benefits in a manner that produces a “1.0” or better in Staff’s analytical framework.

RNP asks the Commission to consider whether, in this context, it may be better to be vaguely right than precisely wrong.¹ Not all benefits are equally susceptible to quantification, nor to measurement on the same scale. And while PacifiCorp, Staff, and interested intervenors may all need to work harder and more collaboratively to develop methods for valuing the less-easily quantified benefits of transmission, converting *all* qualitative analysis into numbers does not necessarily produce the best decisions. With all the challenges of developing new transmission and the need for the utility, the region, and the nation to work together to modernize the grid, RNP urges the Commission not to settle on a constricted analytical framework. At this stage of development in new transmission efforts and in the Commission’s approach to evaluating new transmission, a workshop devoted to collaborative discussion of what criteria should be used to evaluate transmission proposals and what benefits can and cannot be helpfully quantified (and how) might be helpful for all.

Finally, RNP has one specific comment relating to the Staff recommendation on the Wallula to McNary line. Page 41 of the Draft Order states that, to obtain acknowledgment, PacifiCorp must both (1) demonstrate that additional transmission revenues will cause the cost-benefit ratio to rise from 0.82 to 1.0; and (2) quantify “non-economic” benefits. Even under Staff’s methodology, if one or the other of those methods causes the cost-benefit to

¹ This phrase paraphrases a quotation (“I would rather be vaguely right than precisely wrong”) that is frequently attributed to John Maynard Keynes, but may in fact have originated with Carveth Read. *See* http://en.wikiquote.org/wiki/John_Maynard_Keynes#Misattributed.

meet the 1.0 standard, then it is not clear why the other would also be required. Replacing “and” with “or” may be more appropriate for the Draft Order.

2. Ignoring Actual Wind Integration Studies May Promote Inflation.

RNP has advocated for the Commission to require technical review committees (“TRCs”), and is pleased to see that the Draft Order requires PacifiCorp to use a TRC and a study timeline that will provide sufficient time for stakeholder and TRC review and comment. RNP also appreciates the recommendation that PacifiCorp begin to develop metrics for assessing the flexibility benefits of generating resources, storage technologies, and market operations; all of these will mitigate the operational challenges and cost of integrating larger amounts of variable generation over the long term. But neither of these positive developments is a substitute for regulators evaluating actual wind integration studies.

Staff appears to signal that there is no regulatory forum suitable for the Commission to evaluate concerns about the content of a wind integration study. Staff dismisses RNP’s effort to detail some of the PacifiCorp study’s most significant problems in its IRP comments: “Staff believes that the specific wind integration study concerns presented by parties fall outside the IRP process, and therefore does not recommend addressing them beyond recognizing what PacifiCorp provided in its reply comments”—*i.e.*, that wind integration costs had little impact on wind acquisition. (Staff Final Comments, page 33.) Staff did not assess, or even note, Sensitivity Case 29 that showed the model selecting more wind with a lower integration cost (albeit in a wind portfolio already depressed by other

problematic assumptions²). (See LC 52 Comments of RNP, pages 11-12.) But even more importantly, RNP asks the Commission to consider the broader consequences of this approach.

The methodology and results of the wind integration study have effects beyond the particular IRP's selection of wind. Avoiding engagement in the details of wind integration studies may promote inflation of wind integration costs in a variety of ways. The IRP study feeds directly into yearly power cost rate cases; it is unlikely that the study will be examined critically in that forum after being acknowledged without examination in the IRP. Stakeholders who can help the Commission keep rates fair will not be encouraged to participate in wind integration studies, let alone yearly rate cases, when their efforts are dismissed as misplaced. TRC participation may head off some methodological problems, but TRC members are not regulators; they are not charged to protect ratepayers and the public interest. Particularly if regulators decline to engage with study content, utility-derived wind integration cost numbers will continue to gain lives of their own. PacifiCorp's \$9.70/MWh number has become a floor for uncritical benchmarking of other studies across the region.

In sum, looking to the future is important, and focusing on advances in flexibility will help us to capture a cost-effective resource with lower ancillary costs. But if utility commissions do not demonstrate some interest in study content, and some forum for evaluating it, then unwarranted cost inflation may well continue. RNP encourages the Commission to provide a clear signal to utilities and the stakeholder community about how it intends to engage in evaluating the content of wind integration studies.

² On this note, RNP appreciates and supports Staff's recommendation that PacifiCorp be required to demonstrate the analytical foundation for its wind capacity assumptions.

3. A Geothermal-Only RFP Would Have Significant Advantages.

With PacifiCorp's successful operation of a geothermal resource, and its identification of geothermal energy as part of a least-cost, least-risk portfolio, RNP is puzzled by the apparently meager interest in finding new, creative ways to overcome the challenges to fulfilling geothermal's promise. Staff rejected the suggestion by RNP and ODOE that PacifiCorp be required to conduct a geothermal only RFP, and also closed the door to discussion of regulatory avenues for addressing "dry-hole risk." Instead, Staff offered a tweak that would "explicitly" invite geothermal developers to the all-source RFP, indicating that there was no reason that vehicle would not be conducive to geothermal projects—at least none that could not be corrected in review of the draft RFP. PacifiCorp appears to already have made this change in the final draft of its all-source RFP. (*See* UM 1540, PacifiCorp, October 27, 2011, p. 23.)

RNP reiterates its view of the value of going beyond the all-source RFP to require a geothermal-only RFP. First, it makes sense to gain a clear understanding of available geothermal contracts, which allow risk to customers to be isolated and priced into the cost of financing. PacifiCorp's recent "Request for Information" may provide some information to the utility, but information gleaned from RFIs can be suspect because they are perceived in the market as fishing expeditions with no consequences. A regulated RFP, with an independent evaluator to review whether bids approximate the costs that the IRP modeling showed to be successful additions to the portfolio, could attract a larger number of more accurate bids and would allow the Commission access to accurate information against which to evaluate PacifiCorp's treatment of geothermal in future IRPs. Second, readers of the IRP know that the all-source RFP is essentially directed toward acquisition of a large

CCCT. Tweaking the language of the RFP, as Staff encourages stakeholders to advocate for in UM 1540, does not change this baseline fact. In light of this, geothermal developers may not make the considerable financial and administrative effort to bid into an RFP in which it is clear that a large gas product is the desired resource, in which renewable energy credits, long term fuel diversity, and RPS diversity are unlikely to be given significant value, and in which geothermal contracts may be difficult to measure against more straightforward and customary gas turbine deals.

The Draft Order would have the Commission “agree with Staff that the results of a geothermal only RFP would not likely result differently than those of an All-source RFP.” This conclusion does not weigh any of the significant advantages to looking at geothermal on its own merits, rather than as an afterthought in a process intended to acquire a large gas resource. When the IRP modeling strongly suggests that a resource like geothermal is a least cost, least risk option, and existing measures like the all-source RFP have not proven successful in moving forward, new approaches should be given a chance. Otherwise, the value of the IRP modeling exercise itself may be undermined. RNP encourages the Commission to reconsider Staff’s recommendation on this issue.

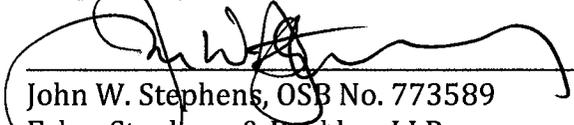
B. Conclusion

RNP appreciates the considerable effort that Staff has devoted to the core, foundational issues in this IRP—evaluating continued investment in coal resources and analyzing a path for DSM and market transactions to meet PacifiCorp’s peak need in a more focused and flexible manner than another CCCT addition. Although we disagree with Staff’s ultimate recommendation and believe that transparency on coal investments must be achieved in this IRP, we very much value Staff’s expert attention to the analysis. Moreover,

we support Staff's thoughtful conclusion with respect to the DSM and market alternatives to the 2016 CCCT. RNP does respectfully ask the Commission to consider shifting direction on the three additional topics discussed above—transmission cost-benefit analysis, wind integration study content, and geothermal acquisitions. We appreciate the opportunity to comment.

DATED this 3rd day of November, 2011.

Respectfully submitted,



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CERTIFICATE OF SERVICE

I hereby certify that I served the foregoing **RENEWABLE NORTHWEST PROJECT'S REPLY TO STAFF'S FINAL COMMENTS AND DRAFT ORDER** on the following persons on November 3, 2011, by hand-delivering, faxing, e-mailing, or mailing (as indicated below) to each a copy thereof, and if mailed, contained in a sealed envelope, with postage paid, addressed to said attorneys at the last known address of each shown below and deposited in the post office on said day at Portland, Oregon:

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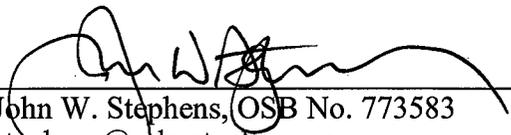
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