BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

LC 52

In the Matter of In the Matter of PACIFICORP dba PACIFIC POWER 2011 Integrated Resource Plan	OPENING COMMENTS OF THE CITIZENS' UTILITY BOARD OF OREGON

I. Customers Can No Longer Afford MEHC/Berkshire Hathaway

When MEHC/Berkshire Hathaway proposed its purchase of PacifiCorp, the Company made it clear that a benefit of the acquisition would be MEHC's access to capital, and therefore its ability to invest in the system. In response to CUB's concern that, with rate base front-loaded, customers may not be able to handle MEHC's capital investment, MEHC testified that under MEHC's ownership rates would increase by less that 4% per year.[1] However, by January 2011, with the addition of the rate increase associated with PacifiCorp's 2011 rate case (UE 217), rates had increased by 59% since MEHC made its pledge in 2005.[2]

The double-digit increase that went into effect on January 1 of this year is already proving to be too much for customers to handle. This fact is most easily demonstrated

[1] UE 227 / CUB / 100/Jenks - Feighner /2-3.
[2] *Ibid*, page 4.

through a review of the number of disconnection notices issued yearly for the last few years. The average number of disconnection notices in 2011 has increased by over 10 percent from previous years on a month-to-month basis.[3] In addition, the average amount of arrearage from residential customers, i.e. the total amount that customers are behind on their bills, has also increased by nearly 25% on a month-to-month basis over previous years.[4]

The primary cause of these rate increases is the massive capital investment MEHC is injecting into PacifiCorp. PacifiCorp's capital investment in coal clean air projects, new wind generation, new transmission lines, and new combined cycle combustion turbines is expected to be in the billions of dollars.[5] CUB was concerned during the MEHC acquisition proceeding that MEHC was indeed purchasing PacifiCorp as an investment vehicle and at that time questioned whether customers could afford the additional investment that this merger would bring. Increasingly, it seems that CUB's concerns were correct— customers cannot afford this level of investment.

PacifiCorp's bias towards capital investment can be seen in the Company's 2011 IRP. PacifiCorp is proposing to meet peaking capacity with combined-cycle combustion turbines (CCCTs) rather than peaker units. CCCTs require significantly higher capital investment but have lower operating costs than single-cycle turbines. PacifiCorp is also not implementing its consultant's suggested ramp rate for energy efficiency,[6] a resource that is expensed, not capitalized. The Company proposes to deal with carbon emissions

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[3] UE 227 / CUB / 200 / Jenks - Feighner / 2.
[4] *Ibid*, page 4.
[5] Testimony of Cathy S. Woolums, Senior Vice President and Chief Environmental Counsel, MidAmerican Energy Holdings Company, Committee on Environment and Public Works, United States Senate, June 15, 2011.
[6] PacifiCorp 2011 Integrated Resource Plan, Volume 1, Page 142.

not by shutting coal plants but by continuing to invest billions in its coal plants and then let carbon regulation reduce the output of these plants. Rather than consider whether lower emissions can come from reducing investment in coal facilities and phasing out some of the units, PacifiCorp is forging ahead as if carbon is not, and will not become, a regulated issue. It would appear that when faced with a resource option choice that the Company is simply choosing the option that corresponds to the greatest capital investment.

As things stand today, this IRP does not include the information necessary to allow regulators or other stakeholders to fully analyze PacifiCorp's proposed resource choices and the capital investments that those choices would necessitate. This is why the Commission has had to step in and require PacifiCorp to conduct such studies.[7] Even without the studies, one thing is clear: if PacifiCorp cannot manage its capital investment plans to ensure that rates remain just, reasonable, and affordable, then regulators must step in today and implement the priorities that the Company seems unwilling to set.

II. The 2011 IRP Is Not Yet Complete Because It Does Not Include an Analysis of Billions of Dollars in Coal Investments

PacifiCorp is in the process of investing billions of dollars to clean up its coal plants. There is little doubt that this represents a resource decision for PacifiCorp that contains a large degree of risk. PacifiCorp is making a decision to invest in coal rather than in alternative fuel resources. Employees at other utilities, such as PGE have looked at the clean air investment costs that would be necessary to keep PGE's Boardman coal

[7] "PacifiCorp asked for more details after regulators' initial review of utility's long-term resource plan" *The Oregonian*. August 20, 2011.
http://www.oregonlive.com/business/index.ssf/2011/08/pacificorp_told_to_try_again_a.html

plant operational and have concluded that it would save customers $200 million to close the plant and invest in alternative resources. CUB is concerned at the differences between the two companies' actions. PGE faced the future head on and made a wise decision. Up until August 19, 2011,[8] PacifiCorp seemed to be blindly ignoring the future, which was neither wise, transparent, nor honest, and did not allow customers to assess the costs that the Company is facing and will continue to face in the future. PacifiCorp's agreement to conduct a unit-by-unit evaluation of these costs corrects a major prior omission from this IRP. CUB is encouraged by the Company's willingness to further investigate the long-term impacts of these resource decisions.

A. How Much Is PacifiCorp Investing in Clean Air Upgrades?

According to a presentation from Cathy Woolums, Senior Vice President of Environmental Services for MEHC, PacifiCorp is estimating that environmental capital costs will increase by at least $1.57 billion from 2011 to 2020.[9] This is in addition to the $1.2 billion invested before 2011.[10] The total capital investment expected is $2.7 billion, with O&M and other costs raising the total cost to customers to $4.2 billion. The actual cost to customers on an annual basis is expected to be $360 million per year.[11]

PacifiCorp's projections should be contrasted with those of PGE. PGE modeled its future clean air costs and found that investments of approximately $500 million were enough, when combined with expected carbon regulatory costs, to shift its analysis to a consideration of early closure of the Boardman plant. Upon consideration of the early

[8] "Integrated Resource Plan Overview". PacifiCorp presentation to OPUC. August 19, 2011.
[9] PacifiCorp Environmental Update, June 1, 2011.
[10] Testimony of Cathy S. Woolums, Senior Vice President and Chief Environmental Counsel, MidAmerican Energy Holdings Company, Committee on Environment and Public Works, United States Senate, June 15, 2011.
[11] *Ibid*.

closure modeling PGE discovered that this was in fact the least–cost, least-risk path forward, which led to the conclusion that the Boardman power plant should be closed.

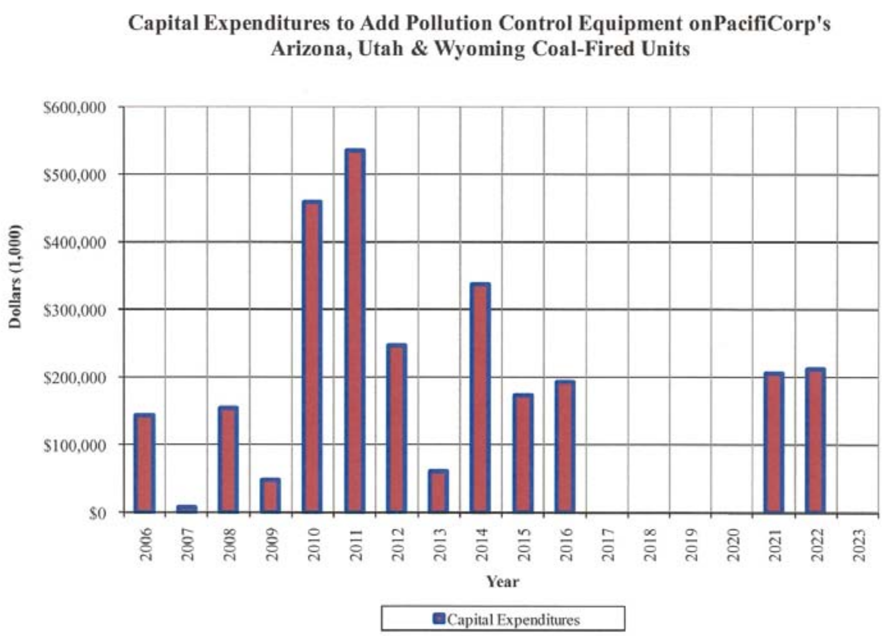
In comparison to the $500 million faced by PGE, PacifiCorp is facing costs of over $4 billion, which would result in continuous annual investment costs of $360 million for years to come. It seems obvious to CUB that when evaluating investments at numerous plants that are, on the whole, far more costly than the investments PGE faced, PacifiCorp must be required to carefully consider a wide range of options for going forward, including the possibility of early closure of some of its least efficient coal plants.

In the past, PacifiCorp stated at its technical workshop its belief that clean air compliance costs were not an IRP issue. Because PacifiCorp refused to come clean about its actual costs and refused to provide a reliable analysis of the costs on each unit and the alternatives to incurring these costs, there was no way to determine whether the forecast of these costs was accurate. More importantly, there was no way to tell whether the Company's planned investments were the least-cost least-risk investments that should be made. PacifiCorp seemed content to acknowledge that there was a need for such studies, but only somewhere down the road. The problem was, and is, that such an analysis can no longer be kicked down the road because the Company intends to, and is, spending the money today. PacifiCorp's coal utilization study assumes that all clean air costs made before 2017 are sunk costs and cannot be redeployed.[12] Thus the Company's strategy seemed to be to put off any review until these necessary costs are already sunk.

[12] PacifiCorp 2011 IRP, page 180-81.

But the following chart from PacifiCorp's Wyoming clean air compliance plan shows why allowing intervenors only to review PacifiCorp's plans after 2017 would have been tantamount to not allowing intervenors to review the plans at all:[13]

CUB Figure 1: Capital Expenditures on Coal-Fired Units by Year



According to this Wyoming chart, PacifiCorp is in the process right now of spending about $1 billion over two years. By 2016, the capital expenditures shown in the chart above will be nearly complete and the Company will have spent $2.3 billion of the expected $2.7 billion. The simple fact of the matter is that more details are necessary to properly assess PacifiCorp's investments in clean air compliance. These investment plans should have been available for review a long time ago, and should have been a major part

[13] Exhibit A, PacifiCorp's Emissions Reduction Plan, Regional Haze (BART) SIP Proceeding, Wyoming, November 2, 2010, page 5. http://deq.state.wy.us/aqd/308%20SIP/PacifiCorp%20Emissions%20Reductions%20Plan_11-2-10_Chap.%206.pdf

of the last two IRPs. CUB applauds the Commission for its decision to require PacifiCorp to conduct these studies today.

B. Unit-by-Unit Analysis of Clean Air Investments versus Plant Retirement

While CUB has so far received a *de minimis* amount of information from PacifiCorp related to its investment plans, this information still shows the massive costs associated with maintaining PacifiCorp's coal fleet. The problem is that CUB still has not received enough information to allow it to determine if the planned investments are prudent expenditures and consistent with least–cost, least-risk utility planning. To determine whether the planned investments comply with the required least–cost, least-risk strategy, each unit must be looked at separately. The unit's efficiency, its coal costs, the known cost of any environmental clean-up, the year that the investment is expected to be made, the risk (and range) of additional environmental clean-up costs that are not firm, the deadline for operating the plant without making all of these additional investments, and the cost and risk associated with future carbon regulation all must be examined to determine whether an investment is prudent and least-cost, least-risk.

The investment costs for each coal unit then need to be compared to the known alternative costs of closing each plant and replacing it with something that is cleaner and more efficient. In addition, to the degree that the clean air costs are associated with Regional Haze (BART) SIPs, the range of options that the Company has considered must also be disclosed, since BART contains a fair amount of flexibility tied to the lifetime of the plant. This flexibility allows for a utility to shorten the life of a plant rather than prolong it by adding additional clean air investments, as the total amount of pollution emitted from a plant is greatly reduced by early closure. As such, if a plant is closed early, the shorter life will mean that less pollution control investment is cost-effective and the utility can move towards finding a more efficient replacement resource.

Even though CUB is aware that PacifiCorp is biased towards capital investment, CUB still finds it difficult to believe that the above described analysis was not previously completed. To invest more than $2.5 billion dollars without determining whether it is a worthwhile investment would have been irresponsible and a sign of incompetence. Prior to August 19, 2011, it seemed that the Company was seeking approval of its investment costs piecemeal in various ratecase proceedings. But each of those ratecases would look only at the individual investments in a given test year. While the test year information may be specific to an individual coal unit, in order to determine the prudency of that investment, all future expected investments, which should also be part of the analysis of prudency, were not being examined.

To demonstrate CUB's frustration with PacifiCorp's prior stance, CUB includes an excerpt from this year's Utah rate case.

> **Q. What factors does the Company consider when determining which capital investments to make in environmental equipment retrofit projects?** A. As an initial matter, the Company assesses its environmental compliance obligations and the timing of those compliance obligations; in that context, the Company assesses the overall cost and availability of various control technologies and alternatives. As the Company considers when, whether and what capital investments to make in environmental controls, it takes several additional factors into consideration, including: evaluation of current state and federal environmental regulatory requirements; review of emerging environmental regulations and rulemaking; and whether alternate compliance options exist, such as purchasing allowances, that may result in lower costs to comply. As part of the BART review of each facility, the Company evaluated several technologies on their ability to economically achieve compliance and support an integrated approach to control criteria pollutants (*e.g.* SO_2, NO_x, and PM for the facility), if it were to continue to operate and to burn coal. The BART analyses reviewed available retrofit emission control technologies and their associated performance and cost metrics. Each of

> the technologies was reviewed against its ability to meet a presumptive BART emission limit based on technology and fuel characteristics. The BART analyses outlined the available emission control technologies, the cost for each and the projected improvement in visibility which can be expected by the installation of the respective technology. For each unit or source subject to BART, the state environmental regulatory agencies identify the appropriate control technology to achieve what the air quality regulators determine are cost-effective emission reductions. Once the appropriate BART technology was identified, the Company moved forward with its competitive bidding process to evaluate and ultimately select the preferred provider for the projects.
>
> **Q. What process is in place to explore ongoing investment versus retirement of the Company's coal units?**
>
> A. The existing integrated resource planning ("IRP") proceedings conducted in all six of the states served by the Company provides the process to address ongoing investment versus retirement of the Company's coal units.

In that proceeding the Company listed the factors it considers when looking at the clean air capital investment associated with a test year, and - plant retirement is not included in the Company's list of factors. Instead, the Company stated that plant retirement should be examined in an IRP. This is, of course, contrary to what the Company stated here in Oregon in the Technical Workshop. There the Company told parties that clean air investment is not an IRP issue. So, what are we to believe? This was a classic Catch-22 argument: the Company cannot consider clean air investments in an IRP, we are told, because those investments are part of general rate case consideration. However, in the general rate case, parties are then told that a general rate case is not the place to consider plant retirements because that consideration belongs in an IRP. CUB again applauds the Commission for requiring PacifiCorp to complete the necessary studies within the 2011 IRP.

C. There Are Real Reasons to Be Concerned About PacifiCorp's Coal Fleet

Last year CUB was involved in an analysis of PGE's Boardman coal power plant. Boardman is a relatively young, modern baseload coal plant. It was efficient in its operation, having had a turbine upgrade installed in 2000. Many of PacifiCorp's coal units are much older and less efficient than Boardman. Just as one must give significant consideration to major capital repairs on an old car, a utility must give significant consideration to major capital investment on an old power plant.

PacifiCorp's oldest coal units date back to 1954. That is the year that Bill Haley and His Comets recorded "Rock Around the Clock", the song that is considered to have launched the rock-and-roll revolution. It is the year that the first color television was manufactured, with a retail price of $1,000. While rock-and-roll and color televisions are still around, Bill Haley died over thirty years ago and that first color television surely has been replaced. PacifiCorp's coal plants, on the other hand, continue to operate to this day.

PacifiCorp has three units that date to the 1950s: Carbon 1 (1954), Carbon 2 (1957), and Dave Johnston 1 (1958); and five units from the 1960s: Dave Johnston 2 (1960), Naughton 1 (1963), Dave Johnston 2 (1964), Hayden 1 (1965), and Naughton 2 (1968). Besides being old, these are relatively small plants, averaging just 145 MW of capacity. Some of the pollution upgrades on these plants are significant. Hayden 1's clean air plans include Selective Catalytic Reduction. Naughton 1 and 2 have clean air plans that include low-NOx burners and scrubbers.[14]

[14] Exhibit A, PacifiCorp's Emissions Reduction Plan, Regional Haze (BART) SIP Proceeding, Wyoming, November 2, 2010. http://deq.state.wy.us/aqd/308%20SIP/PacifiCorp%20Emissions%20Reductions%20Plan_11-2-10_Chap.%206.pdf.

The Hayden and Craig units have the additional risk of being located in Colorado, where voters passed a Renewable Portfolio Standard. The potential for Colorado voters to pass an initiative that will require reductions in carbon emissions and the closure of coal-fired plants sometime in the next 10 to 15 years is a significant risk to any additional investments in these plants.

III. It Is Necessary for PacifiCorp to Model Early Plant Closures in Order to Evaluate Other System Implications

PacifiCorp's IRP Action Plan (see Chapter 9 of IRP) lists the actions that the Company intends to take over the next 2 to 4 years. It is built on the preferred portfolio,[15] which assumes that the Company will continue to operate all of its coal units and make whatever investments are necessary in order to do so. While PacifiCorp gives some limited consideration to how the plan would change if carbon regulatory costs were higher (i.e., more investment in DSM), it gives no consideration to how the plan would change if, in response to clean air costs, the Company were to agree to phase out one or more coal units.

It is obvious that some things would change if PacifiCorp were to make the decision to phase out some coal units. The current Transmission Action Plan is based on the current design of the system with its heavy reliance on coal generation. If one or more of the coal units were to close, some transmission lines would have open capacity and new generation or market purchases would be required. Thus the design and location of new transmission could change. The new CCCTs in the Action Plan may change, as the timing and location of new generation changes on the system. Just as DSM would change

[15] PacifiCorp 2011 IRP, page 252.

in response to carbon regulation, the need for DSM would increase if coal facilities were being shut down. It is difficult to identify items in the Action Plan that would be unaffected by a change in the fleet of coal units.

At the Technical IRP Workshop, PacifiCorp stated that it was not asking the PUC to acknowledge the clean air investment. This is not accurate. The Company may not be explicitly asking the Commission to acknowledge that investment, but it is implicitly asking for that acknowledgement, because to acknowledge any element of the Action Plan requires the Commission to accept the assumptions behind that element of the Action Plan.

Without the underlying analysis described above, relating to the $2.7 billion investment in clean air retrofits, the Commission does not have adequate information to acknowledge any part of the clean air investment either explicitly or implicitly. Therefore CUB recommends that the Commission not acknowledge any elements of the 2011 IRP until the Company submits its underlying analysis of the coal investment and Staff and other parties have a chance to review and comment on that analysis. CUB eagerly awaits PacifiCorp's additional analysis and encourages the Commission to provide ample scheduling accommodation to the Company to ensure that its analysis is done properly, and is not rushed, and to ensure that intervenors have adequate time to review and comment upon that analysis.

Respectfully submitted,

Bob Jenks

August 25, 2011

LC 52 – CERTIFICATE OF SERVICE

I hereby certify that, on this 25th day of August, 2011, I served the foregoing **OPENING COMMENTS OF THE CITIZENS' UTILITY BOARD OF OREGON** in docket LC 52 upon each party listed in the LC 52 Service List by email and, where paper service is not waived, by U.S. mail, postage prepaid, and upon the Commission by email and by sending one original and one copy by U.S. mail, postage prepaid, to the Commission's Salem offices.

(W denotes waiver of paper service)

(C denotes service of Confidential material authorized)

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