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FROM: Western Resource Advocates

DATE: July 29, 2005

SUBJECT: Responses to Workshop Questions, Resource Planning Workshop (Docket No. E-00000E-05-0431)

In the July 6, 2005 workshop on resource planning, the participants agreed to respond to three questions on the future role of resource planning in Arizona. This memorandum presents Western Resource Advocates' (WRA's) responses to those questions. We base our responses on Arizona's previous experience with resource planning and on our experience with resource planning in other states.[1]

Q1. What should a resource plan look like? Provide a straw man representing your views.

A resource plan should present a long term (10 years or more) comprehensive view of the demand for electric energy services and a wide variety of alternatives for meeting that demand.[2] In particular, a resource plan should reflect multiple objectives. Secondly, a resource plan should analyze the risks and uncertainties associated with demand forecasts and resource options and should focus on managing and hedging these risks through the selection of various resources. And third, a resource plan should be the result of a public process. Details on these features are presented below.

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[1] For example, PacifiCorp Integrated Resource Plans 2003 and 2004; Sierra Pacific Power Company 2004 Resource Plan; Public Service Company of Colorado 2003 Least-Cost Resource Plan; Western Resource Advocates, *A Balanced Energy Plan for the Interior West*, Boulder, CO: 2004; David Berry, "The Structure of Electric Utility Least Cost Planning," *Journal of Economic Issues*, vol. 26 (September 1992): 769-789.

[2] Expanding resource planning to gas utilities is an appropriate topic for discussion at the workshops.

Multiple Objectives

Each utility's resource plan should identify the sustainable mix of supply and demand side resources, including transmission and distribution resources, that will foster the following (multiple) objectives: provide reliable electric energy services to customers, minimize net greenhouse gas emissions and other impacts on the environment, conserve water, effectively manage risks, and efficiently deploy and use resources so as to minimize society's costs consistent with the other objectives.

Risk and Risk Management

Risk management is central to good resource planning. There are numerous risks and uncertainties that must be managed, including, for example:

- ✓ The demand (MW) and load (MWh) to be served in future years
- ✓ The price and availability of fuels, especially fossil fuels
- ✓ The capital costs of generating facilities
- ✓ The availability of hydropower
- ✓ Environmental regulation of power production, including the costs of complying with future greenhouse gas emission regulations

Examples of ways to gain insight into risks and risk management include:

- ✓ Use of carbon dioxide adders to examine the effects of the costs of complying with future greenhouse gas emission regulations for various resources
- ✓ Probabilistic analyses of natural gas prices
- ✓ Use of scenarios with dramatically different assumptions about future fossil fuel prices relative to base case assumptions
- ✓ Estimating the costs and carbon dioxide emission levels of different resource mixes assuming the McCain Lieberman Climate Stewardship Act were passed or similar national or statewide caps on carbon dioxide emissions were enacted.
- ✓ Calculation of benchmark carbon dioxide regulation compliance costs above which the resource mix would change.

Public Processes

A public process can enhance the creation of choices and may allow for collaborative agreements among the utility and interested parties. Public participation processes should be used in the development of each utility's resource plan and in the Commission's formal review of utility plans as filed with the Commission. In our experience, where public participation occurs during plan-making, utilities and interested parties can jointly identify better ways to analyze issues and invent a wider range of possible solutions to planning issues. Further, public participation during the plan-making phase can reduce disputes after the plan is filed with the Commission.

WRA's straw man proposal is presented in Box 1.

Box 1: Elements of a Resource Plan

1. Overview and objectives of resource plan
2. Description of supply and demand fundamentals, the markets in which supply and demand exist, regulatory trends, and other forces affecting supply and demand
3. Summary of the utility's current supply and demand situation, including transmission and distribution constraints
4. Summary of public input processes used to develop the resource plan
5. Risks and uncertainties
6. Demand forecasts
7. Identification and characterization of alternative resources, including demand side management and renewable energy resources, to meet the demand for electric energy services and their associated risks and costs
8. Environmental aspects of resource options, including the tracking of water use, air emissions, and other environmental effects of existing and potential new resources
9. Description of the analyses used to select resources
10. Results of analyses including risk analyses
11. Action plan including risk management
12. Long term greenhouse gas emissions and environmental impact management plan
13. Proposed resource procurement processes
14. Appendices with more detail on market and regulatory factors, public input, assumptions, load forecasts, fuel price forecasts, other cost forecasts, demand side management resources, renewable resource options, transmission and distribution needs, risk analyses, draft requests for proposals for resource procurement, and other analyses supporting the plan.

Note: The plan itself (excluding appendices) could be about 50 to 60 pages long.

Q2. What should be the results of the resource planning process?

The results of the resource planning process should consist of:

1. An **action plan** and **a greenhouse gas emissions and environmental impact management plan** approved by the Commission (which may be a modification of the plans proposed by the utility). The utility would be expected to acquire resources consistent with the approved plans or seek Commission approval to deviate from the approved plans as circumstances warrant. Utilities may request Commission pre-approval of elements of the plans for cost recovery.
2. **Resource procurement processes** to implement the approved plans. In general, WRA expects that a procurement process that segments the types of resources sought and solicits each type separately (e.g., energy efficiency resources, renewable energy resources, conventional resources) will be more effective than an all-source procurement process.[3] There should be an opportunity for stakeholder and Commission review of a utility's requests for proposals, including its key assumptions and bid evaluation criteria. This review could generally be accomplished through an informal comment process. If a utility uses

[3] If utilities consider self-build options, it will be necessary to compare those options with third party projects with regard to environmental features including greenhouse gas emissions and associated costs of compliance with future greenhouse gas regulations.

an all-source process, an independent third party monitor would be necessary to ensure fair consideration of renewable energy, energy efficiency, and other non-conventional resources.

3. **Commission approval of resource acquisitions.** There should also be an opportunity for stakeholders to review and comment on and for the Commission to review and approve the results of the utility's major resource procurements (subject to appropriate confidentiality safeguards).

Our experience in other states suggests that settlement agreements may be advantageous to the parties and the Commission. Thus, another result of the resource planning process could be a settlement that would be reviewed by the Commission.

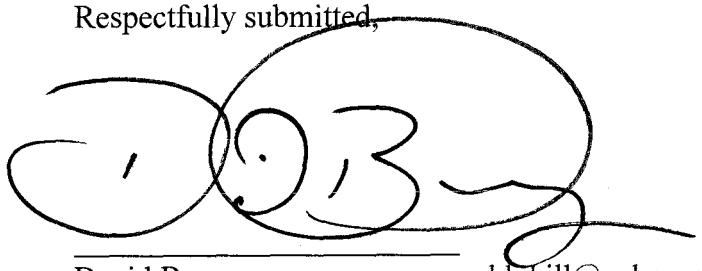
The planning process itself must provide for short review times and recognize the dynamic circumstances affecting the utility industry. Plans should also be updated frequently – about every two years – to take into account these dynamic conditions. If the plans are to be filed at intervals greater than two years, it would be necessary to have utilities file annual updates to their resource plans.

In WRA's experience, resource planning hearings are usually focused on a few issues such as: the adequacy of the role of non-conventional resources (e.g., energy efficiency or renewable energy) in the action plan; whether fuel price, potential greenhouse gas regulation, or other risks are appropriately analyzed and managed; or the appropriateness of reserve margins and the mix and timing of conventional resource acquisitions. Because of this focus, and assuming public input during the utilities' plan-making processes as described above, a hearing on the resource plans could be held 4 to 6 months after the utilities' filing date.

Q3. What time frames were envisioned for the resource planning workshop process?

The workshops should be concluded in a year or less (depending on how frequently participants are able to meet – e.g., monthly, every two weeks, weekly).

Respectfully submitted,



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