

Utah PSC Views on IGCC Technology

PacifiCorp IGCC Workgroup
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Outline of Presentation

- Background and context for answering list of questions regarding state policy on CO2 emissions and IGCC technology.
- Question by question response.



Utah Public Service Commission

- Created in 1917 to regulate retail utility services offered by private companies known as “public utilities”.
- Public utilities are granted a franchise and in return must serve all requests for service at rates, terms and conditions set by the Utah Public Service Commission (PSC or Commission).
- Service must be adequate; rates, terms and conditions of service must be just and reasonable.



Utah Public Service Commission

- Performs as a quasi-judicial entity.
- “Views” on issues are provided as “decisions” through written orders and rules. Decisions have the effect of law.
- Decisions are issued in response to a public proceeding.
- Ex Parte communication in pending proceedings prohibited, USC 54-7-1.5.



Ex Parte Communication

- What?

- Communications between Commission personnel and parties, relevant to the merits of any matter under adjudication, are restricted.

- When?

- Issue pending or likely to be pending Commission decision.

- Why?

- To avoid real or perceived prejudice.



Utah Public Service Commission

- Regulates PacifiCorp

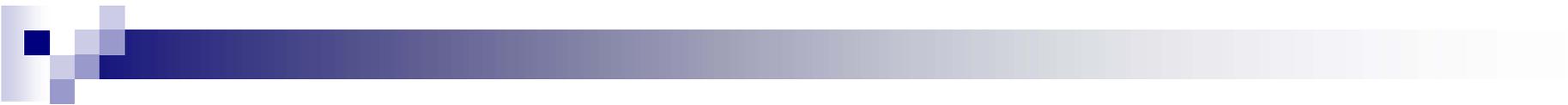
- PacifiCorp operates a utility system of generation, transmission and distribution plant, located throughout the west that serves retail customers in six states.
- This utility system provides about 80% of the electricity service in Utah.



Utah Public Service Commission

State Law and Regulations

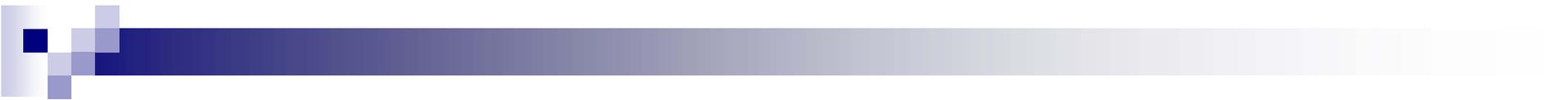
- Planning: USC 54-1-10, PSC shall engage in long-range planning regarding public utility regulatory policy in order to facilitate the well-planned development and conservation of utility resources.
- Planning: 1992 PSC Order on Integrated Resource Planning (IRP) requires PacifiCorp to evaluate all feasible alternatives on a consistent and comparable basis and to account for future risks and uncertainties to find the lowest long-run cost to meet growing consumer demand.



Utah Public Service Commission

Energy Resource Procurement Act

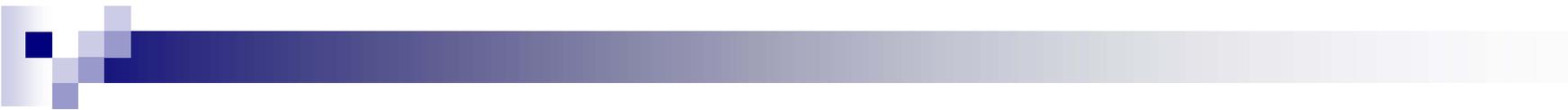
- Requires any PacifiCorp significant energy resource (SER) of 100 MW or greater for 10 years duration or longer to be competitively bid or a waiver granted.
- Requires PacifiCorp obtain Commission approval of its SER decision prior to construction or binding agreement.



Utah Public Service Commission

Energy Resource Procurement Act (cont.)

- In its SER decision deliberation, the Commission must determine whether the proposed decision is in the public interest including considering:
 - Whether it will most likely result in the acquisition, production, and delivery of electricity at the lowest reasonable cost;
 - long-term and short term impacts;
 - risk;
 - reliability;
 - financial impacts to PacifiCorp;
 - other factors determined by Commission to be relevant.



Utah Public Service Commission

Energy Resource Procurement Act (cont.)

- If SER decision is approved, the commission must allow certain costs to be included in retail rates in an appropriate proceeding in accordance with the conditions specified in the law.
- Requires PacifiCorp to file any IRP action plan with the commission.
- Requires the commission make rules providing a process for its review of an action plan.



Utah Public Service Commission

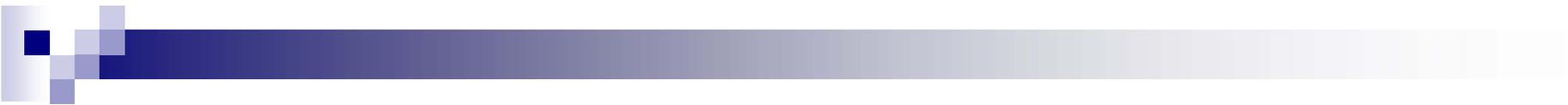
State Law

- Construction: Issues Certificate of Convenience and Necessity.
- QF Price Setting: Sets price PacifiCorp pays to purchase power from a Qualifying Facility.



Current Activities

- PacifiCorp's application for approval of a solicitation for additional power supply in 2012 timeframe is under review in Docket No. 05-035-47.
- Rules for Energy Resource Procurement Act underway.
- IRP 2006 public process underway.



CO2 Emissions

- What is the State's Policy on the need to reduce CO2 emissions?
 - No specific statutory policy.
 - State Energy Policy identifies state objectives.
 - PSC IRP Order requires analysis of risk associated with future environmental cost.



CO2 Emissions (cont.)

- State Energy Policy declares in 63-53b-301 that:
 - Utah have adequate, reliable, affordable, sustainable, and clean energy resources.

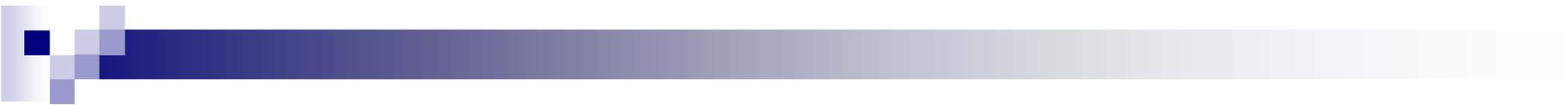
- Further, Utah will:
 - Promote renewable and non-renewable energy resources;
 - pursue environmental quality;
 - maintain an environment for stable consumer prices as low as possible.



CO2 Emissions (cont.)

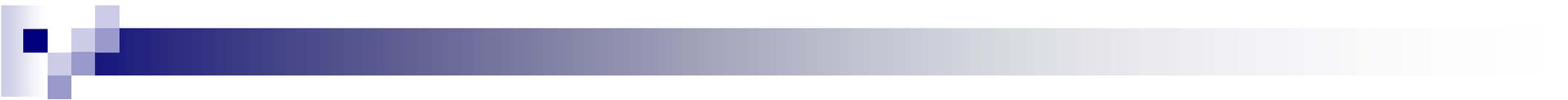
- PSC IRP Order:

- Commission rejects the recommendation to explicitly include external costs into the calculation of least cost and the subsequent acquisition of resources.
- Commission concludes that requiring the Company to conduct an analysis of the risks associated with future internalization of environmental costs is appropriate at this time.
- Higher cost resources would be acquired when it is in the interests of the Company and its ratepayers to reduce the risks associated with future regulations.



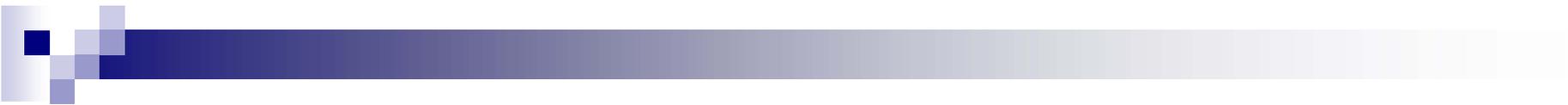
CO2 Emissions (cont.)

- PSC IRP Standards and Guidelines require:
 - Consideration of environmental externalities and attendant costs be included in the integrated resource planning analysis.
 - A range, rather than attempts at precise quantification, of estimated external costs which may be intangible, in order to show how explicit consideration of them might affect selection of resource options.
 - The Company must attempt to quantify the magnitude of the externalities, for example, in terms of the amount of emissions released and dollar estimates of the costs of such externalities.



CO2 Emissions (Cont.)

- PSC IRP Standards and Guidelines require (cont.):
 - An evaluation of the financial, competitive, reliability, and operational risks associated with various resource options and how the action plan addresses these risks in the context of both the Business Plan and the 20-year Integrated Resource Plan. The Company will identify who should bear such risk, the ratepayer or the stockholder.
 - Considerations permitting flexibility in the planning process so that the Company can take advantage of opportunities and can prevent the premature foreclosure of options.



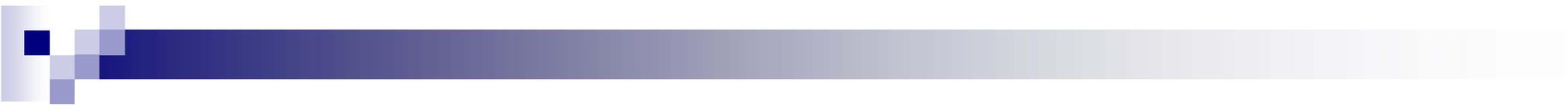
CO2 Emissions

- By what process is the State considering to reduce CO2?
 - Governor Huntsman initiated the Blue Ribbon Advisory Council on Climate Change, composed of environmental activists and utilities executives, to review the science on climate change and propose ways the state can curb its effects.



Coal-fired Generation

- What is the State's view on coal-fired generation to serve future baseload resource needs?
 - By both statute and IRP order, it must be considered.



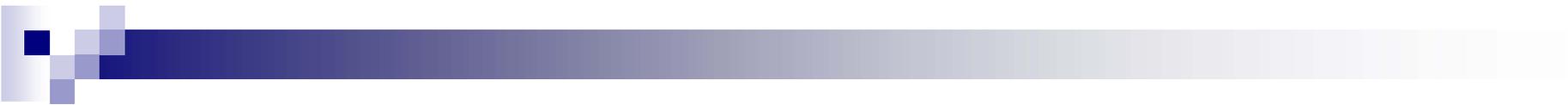
IGCC versus Conventional Coal

- What are the States' and or State Commissions' policies with regard to IGCC compared with a traditional supercritical pulverized coal unit?
 - Both technologies must be considered and evaluated in the context of state policy objectives and IRP requirements.



Cost Recovery through Rates

- What are the State Commissions' views with regard to recovery of an IGCC facility if other alternatives, such as supercritical pulverized coal plant, may be less expensive and a more proven technology?
 - State statute and IRP order requires evaluation of alternatives in the context of state policy objectives, state law and IRP required considerations, as discussed earlier.



IGCC Evaluation

- Are there other factors the Company should include in its evaluation of IGCC and other energy alternatives that, to date, have not been considered?
 - Beyond statutory and IRP requirements, parties are welcome to raise additional issues for consideration.



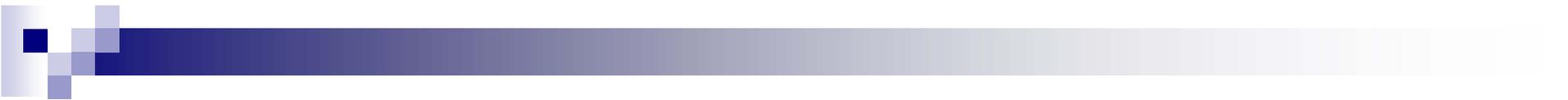
IGCC and Competitive Bidding

- What are the State Commissions' views on the concept that in order to develop IGCC at the current stage of market maturity and market conditions that it may be necessary to select a technology supplier outside of the traditional competitive bidding process?
 - State law allows PacifiCorp to request a waiver of the solicitation process. Following review of the request and comments by parties on the merits of the request, the Commission would render its decision.



IGCC and Competitive Bidding

- What are the State Commissions' views on the appropriate process to develop IGCC within the context of regulation requiring an RFP process for resources?
 - The current process is the IRP, action plan, solicitation process, as described earlier. Additional views will be made known in the context of specific requests for approval following due process. Docket No. 05-035-47, request for approval of a solicitation, is underway.



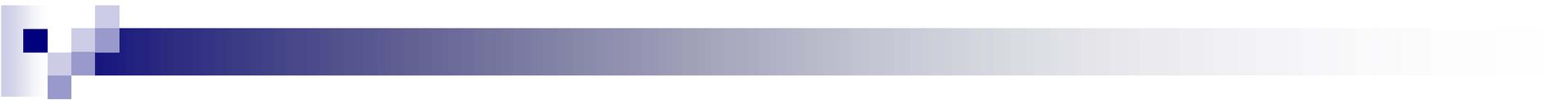
IGCC versus Supercritical Coal

- Based on what the Commission knows about IGCC, would it favor that customers' energy needs be served from an IGCC facility or a supercritical pulverized coal plant?
 - Again, a Commission determination on this issue will result from specific cases brought before it. The Commission will use state law and regulatory orders as outlined earlier, as the criteria by which it will make its determination, based on the evidence provided to it by participants in the process. Further, each PSC decision will be limited to that specific SER at issue, meaning that a future decision could be different for the SER then under consideration.



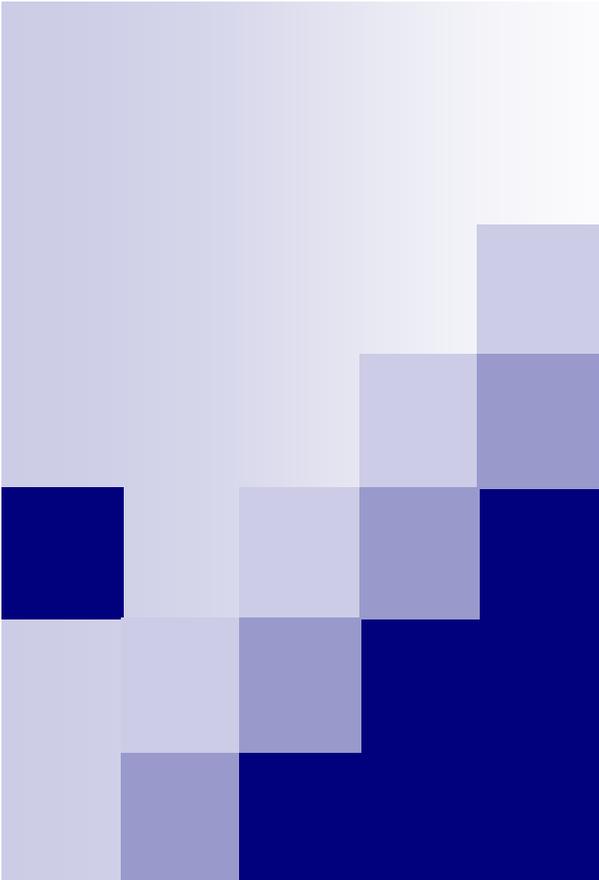
IGCC Technology

- Does the State Commission consider IGCC to be ready for commercial scale application?
 - The Utah PSC has not specifically ruled on this issue although it has approved a QF contract for purchase of power from an IGSC resource. The issue of commercial scale viability was not raised or debated in that case.



Regulatory Treatment of IGCC Byproducts

- What are the Commissions' views on the possible regulatory treatment of an IGCC facility which has the ability to produce other by-products, such as synthetic natural gas, ammonia, Fischer-Tropsch liquids, or to sell “syn-gas” across the fence?
 - Although this specific issue has not been raised nor alternatives considered – typically “other” revenue generated from rate-based assets are either credited to retail customers or shared between retail customers and shareholders. The regulatory principle of “matching” costs and revenues is typically employed in the evaluation process.



Questions or
Comments?