

## INTERWEST ENERGY ALLIANCE

P.O. Box 272  
Conifer, Colorado 80433  
[www.interwest.org](http://www.interwest.org)  
303-679-9331

28 February 2006

Mr. Bob Bergman  
Colorado Public Utilities Commission  
1580 Logan Street, OL 2  
Denver, CO 80203

**RE: Docket No. 05M-375E**

Dear Mr. Bergman:

The Interwest Energy Alliance (“Interwest”) appreciates the opportunity to submit comments on the important issue of amending the Least-Cost Planning rules. We believe that proper structuring of commission rules governing the utility acquisition process can provide significant benefits to ratepayers, utilities and suppliers alike.

Interwest brings together the nation’s leading renewable energy companies and the region’s leading non-governmental advocacy groups, which helps facilitate a consensus-based approach to new renewable energy project development in Colorado and the West.

Here are a few specific comments that we wish to make on several matters.

### Re-characterization of the Least-cost Planning Process

The Interwest Energy Alliance (“Interwest”) supports the January 17, 2006 comments of the Colorado Renewable Energy Society that suggest the renaming of the “Least Cost Planning” process to the “Generation Resources, Efficiency and Transmission Acquisition” (“GREAT A”) process. Such nomenclature provides a much better characterization of the importance of systemic planning to include generation AND transmission, and would enable the planning process to take into account all relevant statutes governing state energy policy and resources acquisition, including §40-2-124 C.R.S., §40-2-123, C.R.S. and §7-56-210 C.R.S.

### Providing Incentives to Utilities to Diversify Project Acquisitions

As part of refocusing the nature of the resource acquisition process to a “G&TA” concept, Interwest also urges the commission to implement rules that offer incentives to utilities to diversify their project acquisitions, particularly of renewable energy projects. Specifically, in December, Public Service Company of Colorado (“PSCo”) announced

that it would be negotiating the purchase of 775 megawatts of wind energy. However, this significant wind acquisition would be comprised of just three projects, consisting of 400 MW, 300 MW and 75 MW. Should either of the two larger projects fail to be consummated, we would be in a position similar to the company's 500 MW renewable energy RFP of late 2004, from which just 60 MW resulted.

Further, the highly concentrated nature of this announced acquisition does not provide the kind of dispersed local economic benefits envisaged by the framers of §40-2-124 C.R.S., nor does it lend itself to the increased electricity production that would result from greater geographical dispersion throughout Colorado's wind-rich eastern plains. We submit that seven dispersed projects of 100 MW, along with the 75 MW project, would provide greater electricity production and more faithfully fulfill the letter, and spirit, of Colorado's energy policy laws.

Interwest understands that it is much more cost-efficient to negotiate for just three projects, rather than seven or eight projects as we postulate in the previous paragraph. However, we would point out that the negotiations need not be conducted with eight different companies: the 775 MW could (and probably would) be developed by fewer than eight companies, despite the dispersed locations of the projects. Thus, transaction costs would not necessarily be multiplied by seven or eight under this scenario. Further, the commission could consider accommodating PSCo's suggestion from the January 27, 2006 workshop to segment requests for proposals according to upcoming resource needs and geographic locations. The important point is the broader dispersion of wind development throughout the state.

This geographical dispersion would not only fulfill the goals of Amendment 37 more faithfully, but it would also help facilitate the goals of §7-56-210 C.R.S., which seek to advance community ownership of renewable energy projects in this state. With more renewable energy projects around the state, more local communities and ownership groups would be able to take advantage of the economies of scale of these utility-scale projects similar to the way Lamar Light & Power was able to leverage the nearby 162 MW Colorado Green project to acquire three of its own turbines at lower unit prices for its own 4.5 MW community project.

In this way, Interwest believes that greater dispersion of projects would provide many benefits to more communities, and at very little incremental cost to investor-owned utilities.

Interwest has also taken part in discussions between Xcel Energy and community wind advocates, and in this regard we also support the intent of the Rocky Mountain Farmers Union to seek rules that facilitate community wind projects, such as exemption of community wind from least-cost planning and adding preference language into resource evaluation criteria. We also appreciate Xcel Energy's ongoing willingness to engage in this dialogue to advance community and locally owned wind projects.

## Realistic Fuel Pricing Assumptions

When planning future resource acquisitions, it is vital that utilities use realistic pricing assumptions for all fuels. In the past, we have seen significant under-estimation of future prices for natural gas, causing sharp and unpredictable increases in electricity prices. For example, even though the winter of 2005-6 was relatively mild, more than one out of every five Xcel Energy customers were late paying their heating bills in December due to record-high natural gas prices.

With the preliminary release of the U.S. Department of Energy's Annual Energy Outlook 2006 (AEO 2006) on December 12, 2006, the Lawrence Berkley National Laboratory (LBNL) updated its past analysis comparing natural gas forward prices to price forecasts with the new data from AEO 2006. An eight-page memo (available at [http://eetd.lbl.gov/ea/emp/reports/53587\\_memo.pdf](http://eetd.lbl.gov/ea/emp/reports/53587_memo.pdf)) that summarizes LBNL's findings shows great consistency with results from similar comparisons over the past five years showing that forward gas prices have been trading at a premium to contemporaneous gas price forecasts. As the memo's authors Mark Bolinger and Ryan Wiser note, "as has been the case over the past five years, leveled cost comparisons of fixed-price renewable generation with variable-price gas-fired generation that are based solely on the AEO 2006 reference case natural gas price forecast will once again yield results that are 'biased' in favor of gas-fired generation (presuming that long-term price stability is valued)."

Gas is not the only fuel that has experienced price volatility and sharp upward spikes: contracts struck last fall for 2006 delivery of Powder River Basin coal were for about \$15.45 per ton — up from around \$10 per ton in July and \$7 per ton a year ago.

This volatility in fossil fuel costs reinforces the importance of using realistic pricing forecasts that help protect consumers and suppliers alike.

## Flexibility for Utilities in Resource Acquisition, Competitive Bidding and Transparency

Finally, Interwest generally supports PSCo's oft-stated request for greater flexibility in resource acquisition. We agree that greater flexibility for PSCo would enable it to negotiate power purchase agreements more quickly and shorten some of the lag time between RFP deadlines and the beginning of negotiations. With the greater internationalization of markets, as PSCo's Karen Hyde pointed out in the October 28, 2005 workshop, bid prices can become stale very quickly. Greater flexibility could enable negotiations to begin sooner and projects to be developed more quickly, providing more certainty to PSCo and bidders alike.

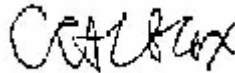
However, with greater flexibility must come a greater responsibility to provide increased transparency. This means that uninvolved third parties should be able to review bidding records and company reports that are submitted to the PUC. Interwest supports efforts by

some parties, such as Western Resource Advocates, to enable bidding results by impartial third parties that have signed appropriate confidentiality agreements.

Finally, we believe that consumers are well served by maintenance of a vigorous competitive bidding process, as we believe that having utility and non-utility projects evaluated in head-to-head competition is the best way of securing better deals for ratepayers.

Thank you again for the opportunity to submit these comments. I look forward to working with you and your colleagues, as well as other parties, in advancing rules that provide a cost-effective, diverse and reliable energy portfolio for Colorado's citizens.

Sincerely,

A handwritten signature in black ink, appearing to read "Craig Cox". The signature is written in a cursive, somewhat stylized font.

Craig Cox  
Executive Director