P.O. Box 272
Conifer, Colorado 80433
303-679-9331
www.interwest.org

7 March 2008

Hon. Ron Binz
Chairman
Colorado Public Utilities Commission
1560 Broadway, Suite 250
Denver, Colorado 80202

Dear Chairman Binz:

We write to support your Commission Initiatives for 2008/2009. These were outlined in your proposal and Commission discussions of February 21, 2008.

Interwest's comments will focus on the energy initiatives, consistent with our mission of developing the policy infrastructure for a robust and competitive regional market for clean, renewable energy technologies. With the proper incentives structure and regional transmission development, the wind, solar and other clean energy technologies that our members manufacture and develop can supply far greater amounts of reliable, cost-competitive power than most current scenarios envision.

Incentives

There is no more important endeavor that should animate your activities than improving utility incentives. Rate-based rate of return (RBRoR) has been a productive regulatory approach, supporting many of today's benefits of utility systems. There are at least two possible ways forward. One maintains RBRoR but adds additional considerations recognizing broader categories of costs and

benefits in determining rates and return on investments. The other departs from RBRoR, substituting economic concepts for cost of service, such as reward for portfolio management, performance-based regulation, or consumer energy source and use measures as fundamental regulatory measures for setting returns.

Since electricity production presents several of the largest environmental costs that remain to be incorporated in consumer prices, utilities should profit from results that are consistent with changes that reduce these costs and incorporate them in prices at the lowest cost and price levels possible. Going forward, CO_2 emissions must be a central metric in measuring costs, but metrics that incorporate CO_2 along with other values that represent lower future costs, risks, and liabilities to consumers are important, since all future projections are uncertain, and sole reliance on single values to structure regulation is in itself risky.

RBRoR, with regulatory lag, presents efficiency incentives. However, when more revenues flow through "automatic" cost adjustments, it can be argued that utility efficiency results are reduced. This follows because the affects of regulatory lag are reduced if higher amounts of revenue flow through automatically to rates. However, at least in theory, corresponding equity rewards would also be lower, since less utility revenue is at risk with higher levels of revenue recovered through "automatic" adjustments. The commission could identify additional or substitute incentives for efficiency (such as trends in consumer energy density, use per dollar of output, or diversity responding to risks in portfolio allocations), if it seeks to depart from existing incentives.

If a firm produces electricity in a wholesale market, its faces a single monopsony electric utility buyer. The incentives of a single buyer in a market are to squeeze suppliers nearly, but not all the way, to death. While the utility monopsony will need some continuing relationships with suppliers, its financial incentive is to convert as much value in the relationship to its own ends as it can, since the sellers have nowhere else to sell their product.

Unless there are active and intelligent regulators overseeing a utility monopsony, consumers will be harmed as competition fails when buyers remove themselves from abusive markets— their only real option. They can go out of business, or take their business elsewhere. The continuing churn of "integrated," "least cost," and "resource planning" rules the commission has issued over the last ten years is testimony to the difficulty of perfecting regulation of competition in a monopsony market. While there are arguably a number of the elements of a workably competitive market for wholesale power in Xcel's previous power acquisitions, there have been problems as well. The devil is in the details. Continued scrutiny and flexibility to respond to new issues is called for. Incentives matter. Oregon's docket UM 1276 provides a ready summary of new ideas about "make or buy" incentives.

Gas Impacts

More solar and wind in the Colorado resource portfolio will have the salutary impact of reducing utility gas burns at a savings to consumers, effectively storing gas in gas fields, gas pipelines, and gas storage facilities until it is needed to meet peak capacity requirements. This partnership between renewables for low cost energy and gas to meet capacity requirements appears to be the best generation-side option available in the current market. However, the gas nomination and operations processes have shown to themselves to be less than perfect at meeting weather-related challenges, as in the rolling blackouts that Xcel imposed over a weekend in response to colder than anticipated weather in February, 2006.

The staff report on these blackouts has some important lessons that could be adapted to the need for the gas nomination and operations system to be more flexible and responsive as more naturally variable renewable energy resources, such as solar and wind, play larger roles in Colorado generation portfolios. We urge the commission to start investigating these issues now, as we believe that they will play a larger role in the future and early identification of least cost reforms for gas operations could be a smart move now.

Transmission

Interwest has documented the inability of today's transmission system to bring cost-effective generation resources to the benefit of Colorado utility consumers.[1] To date, no comprehensive, coordinated, statewide transmission plan has been reported for Colorado that responds adequately to these needs.[2] Interwest's comments on a recently filed utility SB 100 report suggest that more attention is needed before transmission plans will be adequate.[3]

Transmission for Colorado consumers from Colorado producers is the first step toward more diverse, renewable energy sources to manage costs, risks, and liabilities from over-reliance on fossil fuels. The next step is to investigate the costs and benefits of transmission and market reforms that could link Colorado to adjacent states. The Wyoming-Colorado Intertie project represents an important contribution to tying Colorado to adjacent state resources. Each of the constraints in addition to Path 36 that the Wyoming Colorado Intertie project has

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[1] http://www.interwest.org/backcast.htm

[2] http://www.interwest.org/documents/documents/2007-02-09_ccpg_ltr_9feb07.pdf

[3] http://www.dora.state.co.us/puc/DocketsDecisions/DocketFilings/07M-446E/07M-446E_Interwest12-17-07SB-100Comments.pdf. See also http://www.rmao.com/wtpp/SB100.html, and http://www.rmao.com/wtpp/Sb100/Interwest_Comments.pdf

studied should be scrutinized, with the questions in mind whether Colorado consumers and producers could benefit from increased transmission capabilities. Finally, regional markets and transmission issues identified in the Rocky Mountain Area Transmission Study[4], and such transmission proposals at High Plains Express, Frontier Line, TransWest Express, and Gateway South and West proposals should be considered.

The essential driving factor that provides a basis for all this work is that consumers could benefit from the generation available to them if additional transmission investments were made, particularly in growing markets in the Southwest (Phoenix, Las Vegas, Los Angeles). Along with the Colorado Clean Energy Development Authority (CEDA), New Mexico's Renewable Energy Transmission Authority (RETA), and the Wyoming Infrastructure Authority (WIA), the Colorado commission, along with its sister commissions in relevant states (WY, NM, AZ, UT, NV, CA) should focus with laser intensity on these consumer benefits. If consumer benefits continue to be demonstrated at levels that justify additional transmission investment, then the case must be made for the generation acquisitions in regional utility resource planning and state commission reviews of these plans. Transmission will be the servant of these generation choices.

While transmission investments are a convenient entry point for many to discussions at the regional level, since they provide maps of lines that most can absorb as connecting production and consumption, equally or more important are the market structures which need to evolve to provide the functionalities of FERC RTO markets for large-scale power transfers across the region to be possible. Today's markets are analogous to shipping goods down the Rhine in the dark ages – stop at each castle and pay a toll. Today's markets structures and rules will not serve the scale of change among utilities that carbon reductions suggest. There are important market reforms under consideration at NTTG and WestConnect and in the NREL Western Wind and Solar Integration Study[5] that need much broader attention and expansion. Commissioner Tarpey mentioned some of these recently, including control area consolidation and regional postage stamp rates. The NREL Southwest Wind and Solar Integration study should reveal how access to intra-hour fast response generation regulation services can be expanded. Also important are questions about the business models of IOUs in these states. Are the incentives aligned for utilities to support additional power imports and exports?

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[4] http://psc.state.wy.us/htdocs/subregional/home.htm. For transmission options and resource bubbles: http://psc.state.wy.us/htdocs/subregional/FinalReport/Chapter3.pdf

[5] http://westconnect.com/init_wwis.php

Global Warming

Response to global warming suggests a period of intense, thoroughgoing change for utilities that rely heavily on fossil fuels.[6] In addition to how the various federal legislative approaches to this problem suggest state responses and state activities, bringing carbon changes into the center of state regulation of resource planning and financial incentives should be considered. If carbon reductions are important, then resource planning should maximize carbon reducing resources, like efficiency and renewables, then adding capacity resources strategically to meet capacity requirements – denominated "energy first planning" by some analysts.

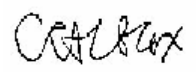
A War on the Calendar

Finally, the commission's ongoing, daily docketed work will contest with its policy initiative. Interwest recommends attention to open days on the commission's calendar now, so days are set aside for work on policy initiatives early and then those time commitments are defended against the tyranny of what seems immanent. The immanent is always at war with the truly important.

Please call on us if Interwest can help you achieve progress toward these truly important policy goals.

Thank you for your consideration of our points in this letter.

Sincerely,



Craig Cox
Executive Director

Ron Lehr
Attorney

cc: Commissioner Jim Tarpey
Commissioner Matt Baker

[6] see www.ef.org: http://www.ef.org/documents/2006_Annual_Report.pdf