

**BEFORE THE PUBLIC SERVICE COMMISSION  
OF THE STATE OF UTAH**

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PacifiCorp Proposed Schedule 79 -- New Wind,            )  
Geothermal, and Solar Power Rider                    )       Docket No. 00-035-T01

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**REPLY COMMENTS OF PACIFICORP ON THE NEW RENEWABLE RESOURCE  
TARIFF**

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These comments are intended to clarify the design and purpose of the New Renewable Resource Tariff and to address issues raised by the Committee of Consumer Services (CCS), the Utah Office of Energy and Resource Planning (OERP) and the Land And Water Fund of the Rockies (LAWF). Specifically these comments address (1) the basis for the New Renewable Resource tariff price; (2) the marketing program including oversight; (3) the timing difference between when energy is purchased and delivered associated with non-dispatchable resources; and (4) the specific resources.

**New Renewable Resource Price**

Parties including the OERP and LAWF have suggested that the price set in the tariff is too high. PacifiCorp acknowledges that advocates for additional renewable resource development would prefer a lower rather than higher premium for such resources. Unfortunately, these parties in their comments would ask the Commission to ignore cost causation and revenue requirement based pricing in order to further their position. The tariff filing package contains a complete financial analysis for the commission to review. The analysis includes a base case, a high penetration case and a low penetration case. The analysis also contains the development of the new renewable

resource cost and the derivation of the premium for that resource over market price resources. The analysis clearly demonstrates the cost basis of the tariff.

The new renewable resource cost is developed in accordance with traditional utility rate based revenue requirements. The revenue requirement of a new generation resource in a regulated environment is set based on the addition to rate base. The rate base component declines over time as the asset is depreciated. PacifiCorp used the actual costs associated with the Company's recently completed wind project at Foote Creek in Wyoming to develop the new renewable resource cost. The Company believes that both the rate base methodology and use of the most recent available development costs are appropriate to determine the premium associated with the new renewable resource tariff.

LAWF references the levelized costs associated with the Foote Creek project included in the Q&A filed with the tariff. They note correctly that the 25 year levelized cost of the Foote Creek resource is \$46.93/MWh assuming the project qualifies for the national wind tax credit. Levelized costs, however, are irrelevant for rate-making purposes. Rate base ratemaking determines the year by year cost based on the revenue requirement associated with the current rate base and related operating and maintenance expense.

LAWF compares the price to a program offered by the Public Service Company of Colorado. This comparison is misleading. The costs of PSCo's program are not indicated by LAWF, however PSCo's costs were subsidized by a federal grant. Comparison with a broader range of block programs would be more enlightening, however such a comparison would still serve only an academic interest. The price of any program should be cost based. The price of PacifiCorp's New Renewable Resource tariff is cost based and subject to Commission review to assure that it remains cost based.

## **Marketing**

PacifiCorp believes the purpose of a new renewable resource tariff is to encourage the development of new renewable resources. Customers may generally be divided into three categories based on their interest in paying a premium to stimulate this development. The first category are those that are eagerly awaiting the opportunity and would choose to purchase renewable energy without any additional stimulation. PacifiCorp believes that this category represents approximately 1% of our customer base. The second category are those who may be inclined to purchase renewable energy, but don't often give much thought to the issue. PacifiCorp believes that this category may be an additional 1-2% of our customer base. The third category is those who are strictly price sensitive or otherwise not inclined to participate at all.

The first category of customer will participate in the program with little or no marketing effort. A program so designed would achieve approximately 1% participation and result in 8-10 MW of new renewable development. PacifiCorp believes that an effective marketing campaign can increase that participation rate three fold by engaging the interest of those customers who may be inclined to participate but haven't given it much thought.

LAWF calculates that the total marketing and overhead expenditures for the first 5 years (\$2.5 million) divided by the mwh sold over that same time frame (190,360) yields an overhead cost of \$.013 per kwh. Then they state that "This is substantially less than the 2.25 to 3.25 cents/kwh marketing/overhead adder that PacifiCorp is seeking to recover". PacifiCorp can find no basis for this statement. The tariff, indeed, recovers the 1.3 cents/kwh as calculated by the LAWF.<sup>1</sup>

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<sup>1</sup> The Company assumes that LAWF is calculating the advertising and overhead premium by taking the total tariff

LAWF and CCS request that the Commission create a forum whereby stakeholder concerns about the utility marketing campaign will be addressed in a timely manner. In the tariff filing PacifiCorp has offered advance review of marketing materials. Indeed, initial materials have already been provided to the LAWF, OERP, DPU, CCS and other interested parties. Comments have been received and significant changes to the initial designs have been incorporated. PacifiCorp encourages this exchange of feedback, and would welcome the establishment of an advisory forum. The CCS suggests that this advisory forum have approval authority over the marketing materials. The Company believes that obtaining Commission approval for all marketing efforts would greatly encumber the ability of the Company to effectively implement the program. The advisory process has already proven its effectiveness. Changes to the initial design resulting directly from stakeholder comments include a change in the product mascot, the addition of language reinforcing the voluntary nature of the offering, a change in how the material describes the increments of power that customers are buying, and the addition of a reference to the Spanish hotline for our Spanish speaking customers.

### **Timing difference**

Renewable resources are generally not dispatchable. This is especially true for wind and most solar resources. Consequently, there must be a true up period for purchases of renewable resources. Customers will use their energy as they will and the renewable resource will generate in accordance with the wind or sun etc. A balance of kwhs purchased versus kwhs sold needs to be maintained in order to assure that all kwhs purchased are eventually generated. Typically, this will be within one year, i.e. usage may be high in the winter and summer and generation will catch up in

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price less the price they believe is appropriate for the above market premium for the energy. As discussed in the section on price PacifiCorp believes that this premium must remain cost based.

the spring and fall.

In this tariff PacifiCorp proposes a two year true up period for two reasons. The first is that this is the true up period that is being proposed by a consortium of utilities, renewable energy advocates and interested parties developing a standard called Renew 2000. Ultimately, PacifiCorp will seek accreditation from a third party, such as Renew 2000, for the new renewable resource tariff.

This accreditation, the Company believes, will assure customers that energy purchased under the tariff is generated and delivered in accordance with agreed upon standards. There is currently no third party standard being developed in the Rocky Mountain region so the standards from Renew 2000 have been followed. If a suitable third party standard is developed in the Rocky Mountain region, the Company would use that standard for accreditation in Utah.

The second reason a two year true up is being proposed is that PacifiCorp determined, in consultation with interested third parties, to develop a tariff which supported new renewable generation development. Some renewable programs use existing renewables. Existing renewables have the advantage of being available from the date the program is implemented. When choosing to stimulate new renewable development a lag occurs from the time that the program is implemented until the first kwh is generated. There are two designs to address this lag. One is to “subscribe” customers without actually selling them any energy until the resource is developed. PacifiCorp rejected this approach for two reasons. First, subscription is not a commitment. In fact, with restructuring occurring within our service territory, it is possible if not likely that many of the customers that subscribe will no longer be PacifiCorp customers at the time the resource is developed. Second, the kwhs that would be purchased during the construction of the resource would be forgone. For these reasons PacifiCorp chose an alternate design; to begin selling the kwhs during the construction phase. This is similar to how many new products are sold. That is, the product is

sold in anticipation of its actual development. When the product is available it is delivered to those customers who have previously purchased it. With the new renewable tariff this may be as long as two years initially. Once the project is on line all kwhs purchased will be generated and delivered to the grid. After the initial period the true up between purchase and delivery will be more or less seasonal due to the non-dispatchable nature of the renewable resource.

### **Renewable resource**

The new renewable resource tariff allows for the energy purchased to be provided by either wind, solar or geo-thermal resources. This wording was included to allow for flexibility into the future as resource costs change. Some parties have requested that PacifiCorp be specific regarding the resource actually to be developed. Recently, PacifiCorp has determined that the initial resource to be developed will be a wind resource. The marketing materials provided to the interested parties to this tariff, including LAWF and OERP indicate that wind is the renewable to be developed.

### **Conclusion**

The Company appreciates the opportunity to reply to comments made by interested parties in this filing. We believe that the New Renewable Resource tariff as filed is well designed to encourage participation and new renewable resource development. The Company agrees to the conditions suggested by the Division of Public Utilities in its letter to the Commission dated March 16, 2000. The Company further agrees to the conditions suggested by the CCS in its letter to the Commission dated March 29, 2000 with a clarification that the marketing advisory group be charged only to review and comment on proposed marketing materials. The Company acknowledges its obligation to customers who have purchased blocks of new renewable energy in the event that the program is terminated. The Company commits to purchase or develop resources sufficient to meet that obligation. These resources will be in addition to any resources developed under the separate 50

MW renewable resource commitment made as part of the Scottish Power merger.

The Company believes that launching the tariff in time to take advantage of interest generated by Earth Day is in the interest of both program participants and renewable resource advocates.

PacifiCorp requests that the tariff be approved as filed to be effective April 12.