- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the Application of PACIFICORP, dba Utah Power & Light Company, for Approval of Standard Rates for Purchases of Power from Qualifying Facilities Having a Design Capacity of 1,000 Kilowatts or Less	))))))	DOCKET NO. 03-035-T10 ORDER

ISSUED: November 21, 2003

By The Commission:

INTRODUCTION AND PROCEDURAL BACKGROUND

On September 12, 2003, PacifiCorp, dba Utah Power & Light Company ("PacifiCorp" or "Company"), filed proposed changes to Electric Service Schedule No. 37 of Tariff P.S.C.U. No. 44 of Utah Power & Light Company. Schedule No. 37 establishes standard prices for purchases of power from Utah-located Qualifying Facilities ("QFs") with a design capacity of 1,000 Kilowatts (kW) or less. The rates are based on avoided costs developed from the Company=s Integrated Resource Plan ("IRP"). Avoided costs are costs the Company would incur to serve its native load Abut for@ the generation provided by the QFs. These avoided costs have been used in other dockets to evaluate contracts and resource acquisitions.

On May 30, 2003, the Commission issued its order in Docket No. 03-2035-01, acknowledging the Company's Integrated Resource Plan 2003 ("IRP 2003") which the Company filed on January 24, 2003 and based on August, 2002 inputs and assumptions. The Company now requests, with an effective date of October 13, 2003, date and price changes to Schedule No. 37 for consistency with the acknowledged plan.

On September 12, 2003, the Commission requested that the Utah Division of Public Utilities ("Division") investigate and review the proposed changes. On October 7, 2003, the Division filed its review and recommendation. The Division recommends adoption of the proposed rates. On November 4, 2003, the Utah Committee of Consumer Services ("Committee") filed its recommendations on the proposed rate request. The Committee recommends against approval of the rates pending further investigation of the consistency of the proposed rates with the inputs and assumptions used in PacifiCorp's Next Best Alternative[(1)] analysis and in its IRP update[(2)]. In the alternative, the Committee recommends approval of the rates on an interim basis.

DISCUSSION

The Company=s filing of September 12th provides a calculation with the three-stage method approved for calculation of avoided costs in Docket No. 01-2035-01. For the first 12 months, the Company uses its own "Official Market Price Projections@ to estimate the costs of wholesale power until a peaking unit can be built. These prices were released by PacifiCorp in late July, 2003 and are quotes it obtained from independent third party power marketers. For the next 22 months, the theoretical costs of a peaking unit, a simple-cycle combustion turbine ("SCCT"), are used until a baseload, combined cycle combustion turbine ("CCCT") can be constructed. The theoretical CCCT costs are used in the latter years of the calculation. For comparison purposes, the costs are then levelized assuming a given capacity factor over a 20-year contract starting in 2003. The levelized price, assuming an 85 percent capacity factor, is $46.47 per megawatt hour. This is 10 percent higher than the current levelized rate of $42.26 per megawatt hour for the 2001 to 2020 period.

Any estimation of avoided costs requires assumptions regarding the Company=s future loads and resources, the least-cost plant type and characteristics, natural gas prices, wholesale electric prices, inflation, discount rates, and the calculation of annual payment factors for power plant capital costs. The Division and Committee review these assumptions and inputs to insure that they are consistent with the Company's integrated resource plan and result in reasonable measures of avoided costs over the 20 year time horizon.

This filing=s load and resource balance differs from the Company's IRP 2003 projections as a result of additions or revisions to long-term purchase contracts including Pinnacle West , Grant County and P4 Production. The load forecast also differs from IRP 2003 projections; the filed load and resource balance is based on a new load forecast completed by the Company in March, 2003. The new load and resource balance shows a summer peak deficit in all years, and a surplus in winter peak and annual energy until 2008 and 2007 respectively. There is no detailed discussion by any party of how this compares with the IRP 2003 projections or whether the new balance is a reasonable projection. Although the Division states that inputs and assumptions are consistent with IRP 2003 and anticipated updates, it does not discuss the impact of these new assumptions on the method used in computing avoided cost. The Committee does not directly address the change in load and resource balance but recommends further review to determine the consistency of data assumptions used in the Schedule No. 37 rates with the assumptions used in the NBA analysis and IRP update.

We note that this load and resource balance differs materially from the avoided cost analysis that is the basis for current Schedule No. 37 rates and this difference calls into question the applicability in this case of the three-stage method used to calculate rates in Docket No. 01-2035-01. In that docket, the Company was in peak and energy deficit in all years. According to the Commission avoided cost method adopted in Docket No. 94-2035-03, a proxy plant method is used for years when the Company is peak and energy deficit and a differential revenue requirement analysis is used for years of peak and energy sufficiency.[(3)] Thus, the load and resource balance in Docket No. 01-2035-01 called for the use of the proxy plant method of calculating avoided cost in all years. Because PacifiCorp's estimated construction lead time required 34 months, using proxy plant avoided costs in all years did not reflect avoidable costs, which at the time were based on wholesale market purchases and were higher than the avoided proxy plant cost. Thus, the Commission directed the Company to file the three-stage method to better reflect avoided cost during this period of resource deficiency.

Now, however, PacifiCorp states that it has adequate winter peak resource and annual energy until 2007. This time frame would allow, and indeed, according to the Company's Current Creek certificate application does allow, the Company time to construct a proxy CCCT. A CCCT is also shown by the Company's IRP 2003 to be the least cost plant in 2007. The period of winter peak and energy sufficiency in the current filing, based on the Commission's Order in Docket No. 94-2035-03, would dictate a differential revenue requirement approach until 2007. In Docket No. 80-999-06, the Commission stated that "Avoided costs will change as economic and financial circumstances affecting them do" (page 8). Therefore, we direct the Company to refile its Schedule No. 37 rates to better reflect changed circumstances. This will also allow further investigation of the consistency of avoided cost assumptions with PacifiCorp's IRP update and NBA analysis.

FINDINGS OF FACT AND CONCLUSION OF LAW

1. PacifiCorp is a public utility that provides retail electric service in the states of California, Idaho, Oregon, Utah, Washington, and Wyoming. PacifiCorp conducts its electric utility business in the state of Utah under the assumed business name of "Utah Power & Light Company."

2. Applicant's rates for the purchases of capacity and energy from QFs are subject to Commission jurisdiction pursuant to Section 210 of the Public Utility Regulatory Policies Act of 1978 and Utah Code Ann. Section 54-12-2.

3. PacifiCorp last submitted, for the Commission's approval, standard avoided cost rates for QFs of 1,000 kW or less in Docket No. 01-2035-01. Those rates, submitted to the Commission on September 6, 2001, were based on a load and resource plan developed in conjunction with PacifiCorp's RAMPP-6, and were updated to incorporate known and measurable changes in assumptions and inputs.

4. The Division has reviewed the Company's application and states that the inputs used are either consistent with the assumptions filed in PacifiCorp's IRP-2003 or are consistent with anticipated updates.

5. The Committee has reviewed the Company's application and states that the inputs and assumptions require update in order to avert undue subsidy from Utah ratepayers and to provide QFs with a fair payment.

6. PacifiCorp states that it is winter peak resource and energy sufficient until 2008 and 2007 respectively.

7. Given the load and resource balance filed in this case, the avoided cost method approved by the Commission in Docket No. 94-2035-03 will more appropriately reflect avoidable costs than the method approved in Docket No. 01-2035-01.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED, that:

PacifiCorp's requested change in Electric Service Schedule No. 37 rates is denied. PacifiCorp shall refile rates for Electric Service Schedule No. 37 that reflect its avoided costs during the period of resource sufficiency using the differential revenue requirement method and a proxy plant method for the period of resource deficiency. The Company will submit to the Commission the appropriate tariff sheets for Electric Service Schedule No. 37 that reflect the decisions made in this order by January 16, 2004.

DATED at Salt Lake City, Utah, this 21st day of November 2003.

/s/ Ric Campbell, Chairman

/s/ Constance B. White, Commissioner

/s/ Ted Boyer, Commissioner

Attest:

/s/ Julie Orchard

Commission Secretary

G#36045

[1] In order to evaluate bids received from its Request for Proposal 2003-A, the Company identified the cost and performance characteristics of its Next Best Alternative.

[2] Filed with the Commission, for informational purposes only, on October 29, 2003.

[3] A "proxy" cost is also used for "short term" capacity purchase.