

- 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 ON RECONSIDERATION

ISSUED: July 20, 2004

By The Commission:

INTRODUCTION AND PROCEDURAL BACKGROUND

On January 30, 2004, 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. On June 1, 2004, the Commission adopted the rates with adjustments after review and consideration of comments filed by interested parties.

On June 30, 2004, The Utah Energy Office, Wind Tower Composites LLC, Utah Clean Energy Alliance, Wasatch Clean Air Coalition, Renewable Energy Development Corporation, and Tasco Engineering (“Petitioners”) filed a Request for Agency Review and Reconsideration. Specifically, Petitioners request reconsideration of the following two adjustments to Electric Service Schedule No. 37 approved by the Commission in its June 1 Order: 1) wind resources shall be limited to the seasonally and time differentiated (peak and off-peak) pricing option; 2) a cap of 10 megawatts is placed on payments made from the Schedule No. 37 rates approved in the order. The 10 megawatt cap is the cumulative capacity of actual QF projects allowed before an update of the avoided cost payment tariff would be required. Petitioners argue that these two adjustments create an unnecessary barrier to small-scale QF projects. Further, Petitioners argue that it is discriminatory to limit wind resource payments to the seasonally and time differentiated pricing option. Petitioners request that wind resources also be allowed the capacity and energy pricing

option but that the capacity payments be limited to no less than 20 percent of the full capacity payment. Petitioners also request the elimination of the 10 megawatt cap, or if one is determined to be useful and necessary, to increase the cap to a minimum of 25 megawatts or 50 megawatts. Only the Company responded to the petitioners request for reconsideration.

On July 13, 2004 the Company provided reply comments to Petitioners' request. The Company asks the Commission to deny Petitioners' requested capacity payment relief because capacity payment is already provided in the seasonally and time differentiated pricing option. Additionally, the Company does not believe that the 10 megawatt cap adopted by the Commission is an impediment to QF development and it opposes Petitioners' request to increase the cap.

DISCUSSION, FINDINGS AND CONCLUSIONS

The issue of appropriate pricing options for intermittent resources, such as wind projects with lower expected annual capacity factors, was initially raised by the Company in its April 2004 comments responsive to Petitioners' requests to increase the size of generators eligible for Schedule No. 37 rates. Its concern was overpayment of capacity costs to such QFs when applying the capacity and energy pricing option. Petitioners acknowledge the overpayment issue and propose that wind resources be paid less than the full capacity payment as a remedy, rather than total elimination of the capacity and energy pricing option. Petitioners recommend no less than 20 percent capacity credit, which they state is the value being used for larger wind resources in PacifiCorp's Integrated Resource Plan currently under development. Indeed, the Company indicates that the seasonal and time differentiated pricing option provides partial capacity payment and estimates this payment to be about 35 percent of full capacity cost, when operating at a 30% capacity factor (i.e., $.30/.85=.353$). Therefore, in order to remove a stated impediment to wind resource development and to address concerns of discrimination, we grant the request for reconsideration and modify our initial decision by allowing both pricing options be made available for wind resources. To remedy the overpayment issue, we set the capacity payment for wind resources electing the capacity and energy pricing option to 20 percent of the Schedule No. 37 approved capacity rates.

With respect to the 10 megawatt cap, petitioners state that such a low cap will discourage the development of small QF projects because the cap creates considerable uncertainty about whether other projects will trigger the cap. They cite the potential non-recovery of fixed costs of preparing a QF project for submission for approval. The petitioners cite Utah Code 54-12 for legislative policy that encourages the development of small power production facilities and seeks to eliminate unnecessary barriers to energy transactions involving independent energy producers and electrical corporations. Although the Company, in its reconsideration comments, opposes the request to increase the 10 megawatt cap, it had earlier stated in its April 2004 comments a willingness to support a 25 megawatt cumulative cap proposed by the Division of Public Utilities (“Division”). In the absence of further comments from the Division, we assume it still supports the 25 megawatt cap. Therefore, in order to reduce barriers to small QF development, we will raise the cumulative cap from 10 to 25 megawatts before the schedule 37 avoided cost payments must be updated.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED, that:

1. Wind resources under Schedule 37 will be allowed the capacity and energy pricing option for avoided cost payments, but with the capacity payment set at 20 percent of the capacity rates.
2. The cumulative cap for Schedule 37 QF projects is increased from 10 to 25 megawatts before avoided cost payments must be updated.

DATED at Salt Lake City, Utah, this 20th day of July 2004.

/s/ Ric Campbell, Chairman

/s/ Constance B. White, Commissioner

/s/ Ted Boyer, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary

G#39379