April 19, 2004

Utah Public Service Commission
Heber M. Wells Building, 4th Floor
160 East 300 South
Salt Lake City, UT 84111

Attn: Julie P. Orchard
Commission Secretary

RE: Docket No 03-035-T10
Schedule 37 - Avoided Cost Purchases From Qualifying Facilities

The Company has reviewed the comments of the Division of Public Utilities and The Committee of Consumer Services and would like to comment on their proposals.

Division of Public Utilities

Size Limit Recommendation

The Company is willing to adopt the DPU's experimental size limit recommendation of 5 MW for two years with a maximum 25 MW contracted for new small QF projects before the rates and size limitation must be updated. However, because of the increase in size limit, the pricing design should be changed to a volumetric basis with on and off-peak pricing where the capacity payment is built into the on-peak pricing as opposed to capacity and energy payments to avoid overpaying intermittent projects such as wind.

Price Design

Schedule 37 currently allows a QF to select either a capacity and energy payment or seasonally differentiated on-peak / off-peak volumetric prices. Previously it was envisioned that QF's with high capacity factors would be indifferent between the two pricing options. However, with the increased interest in intermittent resources, this price design is problematic. An intermittent resource, such as a wind project projected to have an annual capacity factor between 30% and 40%, would certainly select the capacity and energy design. Thus, in this example, the intermittent resource would receive a capacity payment based upon the full name plate capacity despite the intermittent nature of the resource. This would result in an overpayment.

The Company recommends eliminating the capacity and energy price option from the filed tariff to resolve the possibility of overpayment. All QFs, regardless of fuel type, would be entitled to the on-peak / off-peak pricing provided in the tariff.

Other Division Comments
The Division makes four other minor recommendations all of which the Company considers reasonable. The fourth recommendation, related to variable and fixed O&M costs is the same adjustment recommend by the CCS.

Committee of Consumer Services
Summer Peak Defined as June through September
The Company agrees with this recommendation. An analysis of the Company's avoided costs clearly shows that the prices during the June through September period are higher than the other eight months of the year. Adjusting the summer peak season to only four months would send a more accurate price signal to QFs.

This revision will only impact those QFs that elect to take the seasonally differentiated on-peak / off-peak volumetric prices mention in the price design section of this letter.

Capacity Payment based on three months
The Committee recommended that the capacity payment currently based on a three month capacity purchase should be increased to six months. The Company agrees that the three-month capacity purchase could be viewed as being conservative. However, during the period 2004 to 2007, the Company is capacity deficit in five months in 2005 and 2006, six months in 2007, and seven months in 2004. In 2004, we have already passed one of the deficit months and we are almost through a second deficit month.

Therefore, only five deficit months remain in 2004. In 2007, the Company is transitioning over to the proxy resource in July 2007. During the period January to June 2007 the Company is only resource deficit in May and June. The Company therefore puts forth, in response to the CCS recommendation, that the capacity payment could prudently be increased from 3 months to 5 months on a yearly basis.

Gas Pricing Proposal
The Committee proposed two gas pricing options in their comments: 1) if the Commission prefers fixed energy pricing for QFs, the CCS recommended adoption of the Committees alternative gas price forecast which appears to be based on the Committee's combination of the the Company's forecast and those provided by NYMEX and the Energy Information Administration; or 2) if the Commission prefers QF energy prices to vary with the gas markets, the CCS recommends tying the cost calculation to an indexed fuel price at the time the energy is delivered to the Company.

The CCS recommendation described above as "Option 1" for a gas price forecast developed by the Committee should be rejected by the Commission. The Committee forecast is not adequately substantiated and appears to rely on the Committee's view, in part, on future gas prices at Henry Hub. As such, it is not representative of Utah gas prices. The Committee also states that the gas price forecast it developed has been made to include an undocumented $.40/mmBTU “basis adjustment” to account for the difference in prices between OPAL and Henry Hub.

In contrast, the Company uses PIRA Energy Group's long term natural gas forecast as the basis for the Company's long term price projection appropriate for the Utah area (the OPAL gas market). This means that PIRA provides the Company with a direct price projection for OPAL. PIRA is a credible and respected forecasting firm within the energy industry. In developing their long term forecast for the OPAL market, PIRA takes into account plans and forecasts of regional supply, demand and pipeline capacity expansions. Consequently, the Company recommends to the Commission that the gas price forecast being used by the Company be utilized.

The Company believes that the CCS recommendation described above as “Option 2” should be rejected. The Company believes that the conversion to a new avoided cost methodology is best reviewed formally and is inconsistent with the Commissions previous finding in this particular docket with respect to fixed energy prices for “small” QFs.

The Company believes that the issue of variable avoided cost pricing will receive formal debate in Docket # 03-035-14 and, depending on the outcome of that proceeding, the Commission may or may not wish to revisit avoided cost pricing methodologies with respect to “small” QFs.

Other CCS comments
The Company agrees that the Company's original filing included an error related to variable and fixed O&M costs and should be corrected.

Based on the Committee’s recommendation to change the seasonal definitions, the method of calculating average annual energy prices should be revised.

If you have any questions, please call me at (503) 813-5541 or via email at Mark.Widmer@PacifiCorp.Com.

Sincerely,

Mark Widmer
Manager, Regulation

Enclosures