



STATE OF UTAH

OFFICE OF THE ATTORNEY GENERAL

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May 11, 2004

Utah Public Service Commission
Heber M Wells Building, Fourth Floor
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Salt Lake City, Utah 84111

Attention: Julie Orchard, Commission Secretary

Re: *Docket No. 03-035-T10*

Utah Energy Office and Wind Power Proponents' Reply to PacifiCorp's April 19, 2004 Response to the Comments of the Committee of Consumer Services and the Division of Public Utilities.

Procedural Status.

The Utah Energy Office, on behalf of itself and Wind Tower Composites LLC, Utah Clean Energy Alliance, Wasatch Clean Air Coalition, Renewable Energy Development Corporation, and Tasco Engineering, (Petitioners), filed a Petition to Intervene and a Petition to Revise Tariff with the Commission on January 30, 2004 in Docket No. 03-035-T10 (Schedule 37) seeking to expand the eligibility of Schedule 37 for wind powered qualifying facilities from 1 to 5 MWs. Informal comments were requested by the Commission, and were filed by the Committee of Consumer Services (Committee) and the Division of Public Utilities (Division). The Company filed its response to the comments by the Committee and the Division on April 19, 2004. This letter contains the Petitioners' reply.

The Utah Energy Office has also intervened in Docket No. 03-035-14, (Schedule 38). It has become apparent to the Petitioners that these two dockets must be decided in tandem. Issues raised in Schedule 38 could result in changes to the method of calculating rates in Schedule 37. Deciding either tariff without considering the effect on the other could have unforeseen and adverse impacts on small generating facilities.

Summary.

The Company in its April 19, 2004 letter to the Commission appears to agree with a number of recommendations made by the Petitioners to this case and specifically with the proposed size increase for wind powered facilities. Petitioners welcome this support. However, the Company has suggested additional changes in the implementation of the tariff that will discourage small qualifying wind powered facilities and would greatly outweigh the beneficial changes. Petitioners disagree vigorously with these additional changes recommended by the Company.

It is imperative, that the Commission analyze the arguments raised in both Schedule 37 and 38 dockets before rendering a decision in either.

Recommended Changes.

The Petitioners agree with the following comments and recommended changes:

- The change in the size requirement for eligibility from 1MW to 5MWs. This will benefit small wind developers and other QFs in the future.
- The increase in the number of months that short run capacity payments are made from 3 to 5 months. This is more in line with the actual capacity deficiency that the Company experiences during this timeframe. (However this adjustment is superfluous if our recommendation on how to value short run capacity payments is made.)
- The Division has made four minor revisions to the calculation that we support including the updating of O&M costs to Currant Creek numbers and the substitution SCCT O&M costs for that of CCCT O&M costs.

Opposed Changes.

The Energy Office and other Petitioners cannot support the other recommendations made by the Company. If these recommendations are adopted, their impact will be to discourage small QF development within the state. These recommendations should be rejected by the Commission.

- *Elimination of Capacity Payment Option.* The first and perhaps the most damaging recommendation is the Company's request to eliminate the option to get paid for capacity and energy and offer only a volumetric pricing option. The Company argues that payment for the value of capacity will be made by the payments at higher or peak energy prices. Eliminating this option is damaging to QFs, especially those projects with higher capacity factors or projects that require a more certain revenue stream to be able to secure financing. The Petitioners believe that a more equitable way to deal with the intermittent nature of the resource is handled by an appropriate adjustment to capacity payments. The Company memo states that capacity factors for wind range from 30% to 40%. We recommend capacity payments that reflect such a contribution.
- *The calculation of the value of capacity for the period of sufficiency.* The Company estimates that its avoided capacity costs during the short run period of "sufficiency" are best estimated by fraction of the cost of a SCCT. The fraction or proportion is determined by the percentage of time (number of months) during this sufficiency period in which the Company is actually short capacity. This grossly underestimates the value of avoided capacity and leads to undervaluation of avoided costs in the early years. It also affects the peak and off-peak energy values in these early years. If the Company were to build a SCCT to meet its capacity shortfall, it would request full cost recovery for its capital costs, it would not be determined by the percentage of the time that it is used. See UAE's

rebuttal testimony in Docket No. 03-035-14 for further rationale for why the Company's determination is flawed.

- *Two Year Time Horizon and 25 MW Limit.* The Division's recommendation that this tariff be "experimental" and therefore limit both the size and time creates a big problem for QF wind developers. The time horizon to develop a wind project from start to finish is approximately three years. To place a time limit of two years does not allow for that reality. It is hard for a developer to get serious about expending capital for the development of a project given the uncertainty of whether they will be eligible for the tariff. This capital once expended is a sunk cost. The second issue of size limitation creates another layer of uncertainty. There has been considerable interest in wind development within the state and there is a healthy dose of competition amongst potential developers. A developer would be reticent to spend development money on a project only to have others take up the allotted 25 MW limit. We understand the Division's desire to limit the impact of unintended consequences, i.e., potentially too much QF development, and thus offer a compromise. We suggest that the time limit be extended to five years and the size limit be extended to 50 MWs. This is an important issue that should not be decided by a recommendation that was made without consultation with the parties most affected by it. The Division did not give a rationale for its selection of two years and 25MWs.
- *Fuel Price Risk Reduction.* The Company's last IRP did an outstanding job in analyzing risk and its effect on the optimal choice of resources. The result was that 1400 MWs of renewable energy resources were chosen (the majority was wind power). One of the major reasons that the higher cost wind resource was selected was that it insulated the Company and its ratepayers from the risk of rising gas prices. This value to the ratepayer should be incorporated into the avoided cost rates. This has not been done. A recent LBL publication "Accounting for Fuel Price Risk" ¹ provides a range of values that renewable generation resources provides a utility for natural gas fuel risk mitigation. The range is .3 to .9 cents per kWh. This should be included in the avoided cost rates provided to renewable resources. At the very least the Commission should assign this to a task force to determine the appropriate value.
- *Definition of Summer Months.* The Petitioners also take issue with the accepted change in the number of months that are included in the definition of summer months. However, given that the avoided energy costs do not differ much between winter and summer, the issue does not materially affect our membership. However, the Commission should revisit this issue if the rates start to diverge significantly in the future.

1 See Bolinger, Wisner and Golove: "Accounting for Fuel Price Risk", August 2003 LBNL publication No. 53587

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing REPLY TO PACIFICORP'S RESPONSE TO COMMENTS was sent by e-mail and sent by U. S. mail, first class postage prepaid, this 12th day of May, 2004, to:

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