

Steven J. Christiansen (5265)
PARR WADDOUPS BROWN GEE & LOVELESS
185 South State Street, Suite 300
Salt Lake City, Utah 84111-1536
Telephone: (801) 532-7840
Facsimile: (801) 532-7750
Email: sjc@pwlaw.com
Attorneys for Desert Power, L.P.

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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)	DOCKET NO. 03-2035-01
In the Matter of the Acknowledgment of)	
PacifiCorp's Integrated Resource Plan 2003)	COMMENTS OF
)	DESERT POWER, L.P.
)	

Pursuant to the extension order issued by the Public Service Commission ("Commission") in the above-referenced docket, Desert Power, L.P., the only independent power producer in Utah, hereby submits its comments on PacifiCorp's Integrated Resource Plan ("IRP"), filed with this Commission in December, 2002.

Desert Power owns and operates a natural gas fired power generation plant having a nominal generating capacity of approximately 80 Mw. The plant is located some 60 miles west of Salt Lake City in Tooele County and directly interconnects into a 138 kv transmission line owned and operated by PacifiCorp, to which it has sold power. Gas is delivered by Questar Gas Company. Desert Power also purchases power from PacifiCorp.

The IRP reflects a massive increase in PacifiCorp's generation base, representing some 4,000 Mw of new generation and billions of dollars in new investment. As both a power generator in Utah and a PacifiCorp ratepayer, Desert Power has a strong interest in assuring that utilization of the existing Utah resource base is optimized in this process and that PacifiCorp's acquisition of new resources are made consistent with least cost purchasing and fair and open competition.

INTRODUCTION

At the outset, Desert Power would point out four critical deficiencies in the IRP filed by PacifiCorp. First, PacifiCorp has not catalogued existing power generation sources. This is best demonstrated by the fact that the IRP, in listing out resources, ignores the Desert Power resource. It appears that this is more than an isolated oversight, for Desert Power specifically pointed out this omission in its comments to PacifiCorp on the draft IRP. Yet PacifiCorp apparently made no attempt to remedy this exclusion, for the exclusion remains in the IRP document filed by PacifiCorp with this Commission.¹

Second, the IRP gives no substantive consideration to the role that significant upgrading of transmission could play in fulfilling power requirements as compared to the cost of new generation. On a national level, the Bush administration has emphasized the importance that it attaches to relieving transmission constraints through the construction of new transmission assets. Yet the IRP virtually ignores this potential alternative to at least some of the additional generating assets proposed by PacifiCorp.

Third, the overall economy generally, and the Utah economy in particular, has suffered a slowdown over the last months and year. The IRP has attempted no analysis of what this slowdown means for purposes of the building program proposed in the IRP. There is no attempt to look at different economic growth models to determine what this does to the proposed program, including the split between baseload and peak generating assets and the pace at which they should be added. This Commission has already experienced the deficiencies in those analyses in the proceedings before it in which PacifiCorp sought authorization to construct the peaking facilities at Gatsby. As the Commission may recall, PacifiCorp projected shortfalls in summer peak load resources because

¹ Similarly, PacifiCorp has ignored the resource of Desert Power's neighbor, the generating assets of U.S. Magnesium, as well as the ability of both Desert Power and U.S. Magnesium to expand their generating assets.

it projected that Kennecott, Geneva Steel and Magnesium Corporation of America (now US Magnesium), among other large industries, would all be at full load during the summer of 2002. Yet as the Commission is well aware, none of those facilities were at full load during the summer of 2002, with Geneva Steel currently shut down and other major industries still running far below projected levels.

Fourth, and finally, the Commission must assure that the acquisition process meets minimum requirements of transparency and fair dealing. The process must be such that not only is fairness assured but equally importantly, that the appearance of fairness is assured as well.²

With these introductory comments, Desert Power hereby submits its comments.

COMMENTS

A. There Is No Demonstration That the Resource Base Has Been Fully Identified.

The initial point of any analysis is an appropriate cataloguing of the resources that are available. Only by having the appropriate cataloguing can the base line be properly established and potential economic expansion of those resources be examined. It is in that context that considerations of the economic balance between integration and expansion of those resources compared to the acquisition of construction of new resources can be weighed.

It is clear that PacifiCorp has not used that reference point as the starting point of its analysis in constructing its IRP. The exclusion from the available resource base of Desert Power's existing facility, as the only independent power producer in the state, gives rise to significant questions about the inclusiveness of the resource base identified by PacifiCorp. This question is emphasized by the

² In a public meeting held by PacifiCorp in Portland, OR last Wednesday, March 26, 2003, PacifiCorp set out measures it intended to undertake to assure the appearance of fairness to its acquisition process. By promulgating regulations, the Commission reinforces these undertakings and assures their continued observance during the acquisition process proposed in the IRP, to the extent approved by the Commission.

fact that a qualifying facility located next door to Desert Power's facility has also been excluded from the analysis. One is left to wonder how many similar examples exist.

In a similar vein, Desert Power would point out that potential facility expansions have never been addressed as to Desert Power. All this emphasizes that the resource base has not been fully identified and defined and its potential expansion explored.

Before the Commission approves this IRP as the basis for moving forward, it must assure itself that it has been fully presented with the existing resource base and its expansion potential.

B. The IRP Fails To Consider the Role of Transmission Upgrades.

One of the major problems in the PacifiCorp East "bubble" has been the lack of adequate transmission capacity. That is not to say that strategic additions to the resource base will not be required to meet the power requirements of the "bubble." Rather, it is to say that a careful cost/benefit analysis must be undertaken to ensure the proper balance between the two.

The Bush Administration has made clear that upgrading of the national transmission grid is one of the national goals in order to make the national grid more efficient and allow better utilization of the existing and future generating resource base. Yet this IRP makes no substantive effort to weigh the appropriate balance between transmission upgrades and generation additions. Without such a substantive analysis, this Commission cannot make an informed decision.³

C. The Demand Bases for the IRP Need To Be Carefully Examined.

The underlying basis for any projection of new investment requirements must be the underlying level of demand supporting those investment requirements. Recent Commission experience with PacifiCorp's demand projections have demonstrated that those projections can be subject to significant inflation.

³ This balancing would include not only total generating resources required, but the assessment, for example, of the appropriate mix between new peaking and base load facilities.

For example, in the Gadsby expansion proceeding, PacifiCorp introduced projections showing a peak season shortfall for the 2002 summer peak exceeding 400 Mw. Those projections were based upon assumptions about Geneva Steel returning to full production, as well as both Magcorp and Kennecott coming fully back on line. Significant questions were raised during the hearing on the Gadsby expansion on those projections, yet PacifiCorp stood by them. However, subsequent events proved that those questions were valid, and that the projected load did not materialize. Indeed, Geneva Steel continues to be shut down.

Because of the importance of the demand projections underlying the IRP, it is imperative that PacifiCorp be put to a demonstration of the bases for those projections. It becomes extremely important in the current environment because economic projections that have been relied upon in the past are being increasingly questioned. To the extent industrial development does not proceed as projected, but, for example, residential conversions of air conditioning continues, the entire mix between peaking units and base load units are affected.

The IRP does not set out these assumptions and discuss them in sufficient detail that the Commission can make an informed decision on these issues. PacifiCorp should be required to supplement its IRP so that the Commission can make an informed decision on the decisions reached in the IRP, decisions that would impose billions of dollars of new costs on the ratepayers for decades to come.

D. The Commission Should Impose Rules To Ensure the Transparency and Fairness of the Bidding Process.

In its IRP, PacifiCorp has proposed a major expansion of its generating resource base, an expansion that contemplates spending billions of dollars over the next several years in new plants and facilities. The Commission should impose measures to assure that those resource additions are accomplished in a manner that assures fairness and transparency in the resource acquisition process.

Desert Power has joined with other interested parties in filing with this Commission a request to take action to issue rules governing PacifiCorp's acquisition of new resources, whether those resources ultimately are built by PacifiCorp itself, acquired from an affiliate, or acquired from a third party at arm's length. Desert Power understands that formulation of final rules to govern that acquisition process will take time, although the Commission has promulgated a timeline for moving forward that would allow adoption of rules on an expedited basis.

In the meantime, however, it is important that the Commission make clear that whatever the timetable for adoption of final rules may ultimately involve, the resource acquisitions contemplated by this IRP must be undertaken pursuant to an open bidding process, must be subject to an interested party being able to bring any challenge to this Commission, and must give the Commission opportunity to review the merits of the decision before a final decision on a resource acquisition is made. Such a requirement should be imposed as a part of any order ultimately approving an IRP in this proceeding.

Desert Power is not suggesting that PacifiCorp does not intend to conduct an open bidding process. In an open meeting held in Portland on March 26, 2003, PacifiCorp laid out a process for the upcoming IRP's, which process would commence in May, 2003, where its affiliates would not bid into these IRP's, and the bids would be blinded and subject to independent review by a third party. What Desert Power is suggesting is that at the end of this process, parties must have an opportunity to bring any challenge to an award before this Commission with the Commission to have a meaningful, expedited look at the fairness of the process and the ultimate outcome.

This procedure does not need to result in a prolonged proceeding, but the Commission should make clear that it is one that will occur. The availability of such review for assuring not only the integrity, but the appearance of integrity, of the ultimate outcome is particularly important if the

successful bidder is the utility itself, for although PacifiCorp has stated its affiliate will not participate, it has not stated that it will participate. By engrafting such a requirement in any order approving the IRP, the Commission assures that no acquisition will escape its bidding review; at the same time, the Commission could make clear that these requirements are interim only, to be immediately superseded by any rules ultimately adopted in the Commission's proceeding directly addressing the bidding procedures.

CONCLUSION

In sum, the IRP should not be approved in its current form. It does not adequately identify and quantify the existing resource base; it does not adequately address the balance to be struck between transmission upgrades and resource additions, including a meaningful cost/benefit analysis; and it does not adequately explore and justify its demand projections, including the impact of any shifts in those demand projections as between the need for peaking resources versus base load resources. At the same time, the Commission should adopt conditions as a part of any approval order imposing bidding requirements and a review procedure for any award of new resource acquisition ultimately accepted by PacifiCorp.

DATED this 31st day of March, 2003.

PARR WADDOUPS BROWN GEE & LOVELESS

By: _____
Steven J. Christiansen
Attorney for Desert Power, L.P.

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing was mailed, postage prepaid, this 31st day of March, 2003, to the following:

Edward A. Hunter, Esq.
John Eriksson, Esq.
Stoel Rives Boley Jones & Grey
201 S. Main St., Ste. 1100
SLC, UT 84111

Michael Ginsberg
ASSISTANT ATTORNEY GENERAL
Division of Public Utilities
500 Heber M. Wells Building
160 East 300 South
Salt Lake City, UT 84111

Jeff Burks - Director
Office of Energy & Resource Planning
Utah Dpt. of Natural Resources
1594 W. North Temple, Ste. 3610
SLC, UT 84114-6480

Reed Warnick
ASSISTANT ATTORNEY GENERAL
Committee of Consumer Services
160 East 300 South, 5th Floor
Salt Lake City, UT 84111

Lee Brown
Tony J. Rudman
Counsel for MagCorp
238 North 2200 West
SLC, UT 84116

Capt. Robert. C. Cottrell, Jr.
Utility Litigation & Negotiation Attorney
AFLS/ULT
139 Barnes Dr., Ste. 1
Tyndall AFB, FL 32403-5319

F. Robert Reeder, Esq.
Williams J. Evans, Esq.
Parsons Behle & Latimer
P.O. Box 45898
SLC, UT 84145

Stephen R. Randle, Esq.
Randle, Deamer, McConkie & Lee
139 E. South Temple, Ste. 330
SLC, UT 84111-1169

Gary Dodge, Esq.
Hatch James & Dodge
10. W. Broadway, Ste. 400
SLC, UT 84101

Scott Gutting
Rick Anderson
Energy Strategies, Inc.
39 Market St., Ste. 200
SLC, UT 84101

Cheryl Murray
Committee of Consumer Services
Heber M. Wells Building, Room 410
160 E. 300 South
SLC, UT 84111

Bill Thomas Peters, Esq.
Glen E. Davies, Esq.
Parsons, Davies, Kinghorn & Peters, P.C.
185 S. State, Ste. 700
SLC, UT 84111

Eric C. Guidry
LAW Fund Energy Project
2260 Baseline Rd., Ste. 200
Boulder, CO 80302-7740

Peter J. Mattheis
Shaun C. Mohler
Brickfield Burchette Ritts & Stone
1025 Thomas Jefferson St., NW
800 West Tower
Washington, DC 20007
