PACIFICORP

UTAH PUBLIC
SERVICE COMMISSION

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

Re: ***Response to Request for Additional Comments, Docket No. 04-035-04, In the Matter of the Petition of Desert Power, L.P. for Approval of a Contract for the Sale of Capacity and Energy from Its Proposed QF Facilities.***

Dear Commissioners:

PacifiCorp has been working with the parties to address the issues raised by the Commission in its September 1, 2004 letter in the above-captioned proceeding. PacifiCorp offers the following comments for the Commission's consideration in addition to the comments previously filed by the parties in this docket.

The primary issues raised in the Commission's letter relate to the inflation adjustment contained in the Desert Power contract. While the mechanics of the adjustment were negotiated in this docket, the Company was aware during the stipulation process in Docket No. 03-035-14 that parties reserved the right to raise other issues during the contract negotiation process, including specifically, a potential inflation adjustment term.

The avoided cost prices included in the stipulation in Docket No. 03-035-14 and approved by the Commission include an annual, embedded operation and maintenance (O&M) adjustment of 2.5% (the base case). The intent of an the inflation adjustment provision included in the Desert Power contract was to establish a mechanism that adjusts the embedded O&M factors if there are significant changes in inflation that materially depart for a period of time from the base case. It was important to the Company and other parties that any mechanism considered decreases below the base case as well as increases above the base case.

In considering this proposed term, the Company and other parties worked to ensure that there were at least two built-in mechanisms to protect ratepayers from repeated or minor changes. To that end, the inflation adjustment ultimately included in the Desert Power contract requires both consistency of increase and a lag before any cost increases were passed to customers. In addition, parties sought symmetry in the adjustment which allowed for cost decreases if inflation decreased over a period of years as appropriate. To accomplish such symmetry the Division undertook an analysis of historical CPI data to determine the most appropriate bandwidth that was symmetric to both parties. In other words, both the trigger mechanism for a change when CPI increases over two years and the trigger mechanism for a change when CPI decreases over two years have an equal probability of occurring based on historical data.

PacifiCorp recognizes that the Commission has some concerns as to whether a CPI index is the most appropriate measure. PacifiCorp believes that the most appropriate measure to analyze for likely near term cost increases for O&M is the Global Insights (GI) publications that produce analysis directly related to steam plant operations. These indices look in more detail at the impact of cost factors for specific issues rather than global inflation factors.

The GI indices provide projections of cost increases. In contrast, the purpose of the use of CPI in the Desert Power contract is to provide a measure of when unusual inflation increases or decreases have actually happened. The CPI index has easily verifiable historical data that allows a determination of the appropriate trigger mechanisms that should be set and provide for a symmetrical inflation adjustment mechanism. In this context and for the purpose for which it is proposed, CPI therefore is most appropriate in terms of establishing a historically-verifiable trigger mechanism.

As the Commission knows a Task Force is currently engaged in analyzing the methodology for future QF purchases. It is the Commission's action on those Task Force recommendations, not the terms of this specific contract, which will determine how issues like inflation adjustments will be handled in the future. As a result, the Company believes that this contract does not provide precedent for future QF Contracts.

Very truly yours,

John W. Stewart
Managing, Director Regulation