

VAN COTT, BAGLEY, CORNWALL & McCARTHY
John T. Nielsen (2408)
50 South Main Street, Suite 1600
P. O. Box 45340
Salt Lake City, Utah 84145
Telephone: (801) 532-3333

| | |
|-------------|-------------------|
| EXHIBIT NO. | <i>Chevron-1</i> |
| Case | <i>94-2035-03</i> |
| Date | <i>10-2-94</i> |
| Witness | |
| Reporter | <i>Stacy</i> |

Attorneys for Chevron U.S.A.

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

| | | |
|----------------------------|---|-----------------------------------|
| IN THE MATTER OF THE |) | Docket No. 94-2035-03 |
| APPLICATION OF PACIFICORP |) | |
| FOR AN ORDER APPROVING ITS |) | Position Statement of Chevron USA |
| AVOIDED COST RATES |) | Products Company |

Introduction:

In the Public Service Commission (Commission) Order in Docket No. 94-2035-03 dated October 18, 1994 the Commission requested that the parties provide their views and suggestions to the Commission regarding the "handling" of projects greater than 1000 kw in size. This position paper is only in response to the Commissions request to address projects greater than 1000 kw and Chevron reserves its right to address the issues respecting the avoided costs of less than 1000 kw at a future date.

As Chevron stated in its amended petition to intervene, what is most germane in PacifiCorp's (Company) resource acquisition strategy is the analysis and deliberation the Company undertakes when evaluating the benefits to ratepayers derived from these larger projects. The majority of supply opportunities the Company has acquired are characterized by projects or purchases far in excess of 1000 kw. While the issue of how to handle projects larger

than 1000 kw has been discussed for years Chevron believes this docket provides the opportunity for the Commission to address these issues.

Chevron's Views:

It is Chevron's view that it is incumbent upon the Commission to assure that PacifiCorp reviews, analyzes and selects each of these projects in a fair and consistent manner. Equally important is the assurance that any project chosen by the Company is consistent with the notion of least-cost planning and with the broad analysis and acquisition strategies outlined in the RAMPP process. Finally, it is valuable for potential project developers and customers to have clear signals beforehand as to how various project evaluation criteria (both economic and non-economic) used by the Company will be analyzed.

Chevron believes that PacifiCorp's avoided cost proposal which includes a 1000 kw cap will offer no help to the Commission and/or other interested parties in evaluating the majority of the Company's generation resource acquisitions. If adopted as proposed with no complimentary process addressing evaluation between resource options of larger projects, leading to a level playing field and workable competition, no process or procedure will be in place which could provide an affirmative showing of the reasonableness and cost-effectiveness of the acquisitions chosen. Failure to provide adequate assurances will, in turn, exacerbate the after-the-fact questioning by interested parties as to the soundness and fairness the Company demonstrated in its project acquisition reviews.

There is universal agreement that the restructuring currently underway in the electric industry will be accompanied by a proliferation of non-utility generators, power marketers, etc. This new class of generators will offer PacifiCorp and its customers a growing

array of options from which to meet future resource needs. Chevron requests that the Commission move forward at this time toward developing a process that will make transparent the resource acquisition decisions undertaken by the Company. Failure to do so could result in undermining confidence previously gained in the PacifiCorp's RAMPP process (especially with regard to linking the resource acquisition strategy to the actual business action plan). Market opportunities the Company pursues should be evaluated within the context of the broad acquisition strategies the Company has developed through RAMPP. That evaluation should be expanded so that all analyses, studies, etc. on specific projects considered for acquisition should be made public to ensure the Commission and interested parties that the decisions rendered by the Company reflect the goals of least-cost resource acquisitions and are based upon thorough analyses reflecting publicly stated criteria.

PacifiCorp has argued in the prefiled direct testimony of Rodger Weaver [p.14, line 21-24] that the proposed avoided cost methodology for projects less than 1000 kw is desirable in that it "will allow the Company, potential developers, and the Commission to evaluate potential projects in a timely and cost effective manner." Ironically, the same cannot be said regarding the evaluation of larger projects. In effect, the Company offers through their prefiled testimony a two-tiered process: (1) for smaller projects of less than 1000 kw a very transparent evaluation process to be conducted to assess cost-effectiveness of a potential project vis-a-vis a published avoided cost derived from RAMPP-3, and (2) for larger projects (which represent by far the majority of projects in which the Company pursues an interest) a continuation of the current procedure. The latter lacks transparency, fails to provide assurances

of a level playing field, and fails to assure that workable competition among developers and utility owned generation options exists to produce the best products at the least cost.

The acquisition process for these larger resources is a question which has been raised in different forums. Comments filed by various parties in RAMPP-3 (Utah Division of Public Utilities, Montana Department of Natural Resources, Chevron) have indicated that such acquisitions lacked a full disclosure review. This is a major shortcoming of the resource acquisition process. Nothing the Company has offered in their prefiled testimony addresses this problem.

Chevron's Suggestions:

Chevron believes the Commission should move forward at this time to implement procedures which will provide greater assurance that market opportunities pursued by the Company are least-cost options as defined by the RAMPP process. In order that such decisions are made transparent to the Commission and all interested parties, it is suggested that any procedure adopted should include at a minimum the following key characteristics:

1. Complete documentation provided to the Commission regarding the Company's decision process for each market resource including company owned resources it pursues.
2. Complete documentation provided to the Commission in the evaluation of projects larger than 1000 kw including how the Company evaluates resources and adjusts the published avoided cost and/or resource value for factors such as transmission availability, dispatchability, reliability, environmental impacts, and any other 'adders or subtractors' used by the

Company to determine 'location-specific' or 'regional' avoided cost values.

3. Complete documentation provided to the Commission on how the Company undertakes a comparison of market alternatives and how a weighing scheme, if used, is conducted. This would include documentation demonstrating that the weights utilized are reasonable values for risks associated with an acquisition.
4. Complete descriptions and justifications provided to the Commission regarding how the Company applied its 'professional judgement' in evaluating market opportunities and how those judgements impacted the outcome of the Company's analytical evaluation.

Chevron believes the Commission could achieve these four characteristics by requiring open competitive bidding for all resource acquisitions greater than 1000 kw. Through this process the Commission could eliminate much of the lack of transparency in how resource decisions are made. Additionally, how such decisions relate to the resource strategy as defined in RAMPP could also be fully analyzed. Competitive bidding also has the advantage of introducing fairness into the acquisition process. Potential developers and customers will be able to compete on equal ground given the publicly stated criteria by the Company.

The Company and utilities in general have over the last several years garnered considerable experience in the development of request for proposals (RFP). Given this experience and the rules/standards adopted by the Commission governing how RFPs and the

bidding procedures could be developed, it is likely that the bid process itself will ensure a competitive outcome.

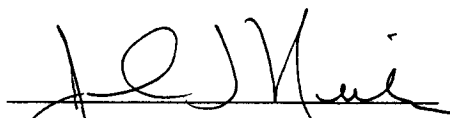
The four objectives listed above would be contained within the RFP as pertaining to the evaluation/scoring criteria. This would make transparent for both the Commission and all interested parties how the Company evaluates both economic and non-economic factors. In turn, potential developers would be given clear indications as to whether their projects are advantageously sited and are generally competitive. Such a scheme could eliminate to a large degree the potential problem of developers spending large amounts of funds on engineering and feasibility studies when, in reality, given the Company's interest in particular resources or locations for development, such projects are not competitive.

Conclusion.

Chevron believes it is important that the resource acquisition decisions made by the Company be demonstrated that they are, indeed, in the best interest of all ratepayers. This is true regardless of the size of the acquisition. The proposal offered by the Company, as stated in their pre-filed testimony, offers such assurances for only a small sub-set of resource options the Company may choose to pursue. Most acquisitions will remain outside of the evaluation procedure offered in the Company's testimony. The Commission should move forward to implement procedures which will close this gap and provide similar assurances that all acquisitions, large or small, be demonstrated as the lowest cost option. Chevron requests, therefore, that the Commission order that all future resource acquisitions greater than 1000 kw by the Company be conducted through a competitive bid process, or that other processes or

procedures be required to assure transparency respecting the Company's resource acquisition analysis consistent with the views and suggestions expressed herein.

Respectively Submitted

A handwritten signature in black ink, appearing to read "J. Nielsen", written over a horizontal line.

John T. Nielsen
For Chevron USA Products Company

CERTIFICATE OF MAILING

I hereby certify that I caused a true and correct copy of the within and foregoing PETITION STATEMENT OF CHEVRON USA PRODUCTS COMPANY to be mailed, postage prepaid, this 7 day of November, 1994, to the following:

Edward A. Hunter, Esq.
STOEL RIVES BOLEY JONES & GREY
One Utah Center
201 South Main Street, Suite 1100
Salt Lake City, Utah 84111-4904

Michael L. Ginsberg, Esq.
Assistant Attorney General
4120 State Office Building, #400
Salt Lake City, Utah 84114-0811

Kent L. Walgren, Esq.
Assistant Attorney General
4120 State Office Building, #400
Salt Lake City, Utah 84114-0811

Peter Mattheis, Esq.
Brickfield Burchett & Ritts
1025 Thomas Jefferson Street, N.W.
Eighth Floor, West Tower
Washington, D.C. 20007

Eric Blank, Esq.
LAND & WATER FUND
1405 Arapahoe Avenue, #200
Boulder, Colorado 80302

Gary A. Dodge, Esq.
KIMBALL PARR WADDOUPS BROWN & GEE
185 South State, #1300
P.O. Box 11019
Salt Lake City, Utah 84147

A handwritten signature in black ink, appearing to read "G. A. Dodge", is written over a solid horizontal line.