BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

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| In the Matter of the Application of PacifiCorp for an Order Approving its Avoided Cost Rates. | ) ) ) ) ) | Docket No. 94-2035-03<br>Comments of PacifiCorp |

Pursuant to the Utah Public Service Commission's ("Commission") October 18, 1994, Order in this Docket, PacifiCorp ("PacifiCorp" or "Company") hereby respectfully submits its suggestions regarding the appropriate procedures for qualifying facilities ("QF") larger than 1000 kW in size.

INTRODUCTION

Under the provisions of the Public Utility Regulatory Policies Act of 1978 ("PURPA") and the FERC rules ("Rules") implementing PURPA, PacifiCorp has an obligation to purchase power from QF at rates which reflect the Company's avoided costs. The Rules require standard rates for purchases from QF 100 kw, or less, in size, and permit, but do not require, standard rates for purchases from QF 100 kW or greater in size.

PacifiCorp has asked the Commission in this docket to establish standard rates for purchases from QF 1000 kW, or less, in size. PacifiCorp's request reflects its view, based on 16 years of experience in this and other jurisdictions, that 1000 kW is the project size at which system impacts and power costs justify the expense of individual QF contract negotiation.

As the Commission knows, the Company initially supported the implementation of a single standard rate for all QF, regardless of size, in this jurisdiction. That position was based on the naive assumption that one rate would lead to regulatory and administrative efficiencies which would outweigh any costs associated with paying every project, no matter its size, location or operating characteristics, the same price for power. In reality, the result was a series of protracted and expensive proceedings and, in the Company's view, windfall prices for some QF.

PacifiCorp respectfully submits that Chevron's request to expand the scope of these proceedings would lead to the same result. There is no legal or practical reason why the Commission should attempt to determine on a generic basis the price, terms or conditions for purchases from QF 1000 kW or larger in size. That is particularly true now when the Company has been approached by developers, including Chevron, which represent approximately 500 MW of potential generation in Utah.

PROPOSAL

PacifiCorp recognizes that it has an obligation to purchase any energy and capacity made available by QF at rates which reflect the Company's avoided costs. In the case of QF larger than 1000 kW, those rates should reflect the market options available to PacifiCorp and the characteristics of the specific QF; including its location, size, operational characteristics, fuel source and reliability. For example, location is an important factor because, in general, the Company's system resource needs are greater on the west side of its system than on the east side and the Company's ability to move power from east to west is limited. As a result, the price for new resources on the east side, whether QF or Company owned must reflect those constraints.

Currently the generation development market is crowded and competitive. PacifiCorp routinely receives numerous solicited and unsolicited proposals from developers. Two recently accepted offers are the James River Camas paper mill cogeneration project and the Hermiston Cogeneration Project. The current resource market offers the Company a variety of potential resource options including gas-fired combustion turbines, cogeneration facilities, geothermal plants, and hydro facilities, among others.

Typically these projects have been priced anywhere from 70% to 90% of the then-most-currently-approved-and-published avoided costs. Just as importantly, the prices of market opportunity projects have been declining rapidly over the last 12 to 18 months. Thus, the actual market-based prices are changing much more rapidly than the states' published avoided cost adjustment mechanisms are able to respond to. If the two recently accepted projects had been priced based on then-current avoided costs, the Company would be paying tens or hundreds of millions of dollars more for their output.

Such considerations require case-by-case negotiation between the Company and the developer in order to identify the real value to the system of the project and to build that value into the prices offered. The unique aspects of each project will determine the true avoided costs and therefore the appropriate prices for its output.

This process does not submit to one-time, one-size-fits-none determination in a generic case. Recourse to the Commission on a complaint basis is always available if a developer believes the negotiation process is not leading to an appropriate price offer reflective of its true avoided cost. This should be a last resort and not a common occurrence.

In conclusion, it is the Company's opinion that market-based alternative costs should be used to evaluate potential large (over 1000 kW) resource acquisitions. Using market-based alternative costs and incorporating the peculiar aspects of each potential project presents a more accurate view of the avoided cost of the resource and protects the Company and its customers from unnecessarily high costs. The Company and the QF developer should establish avoided cost prices and all other aspects of a power purchase agreement through negotiation on a case-by-case basis. Prices for projects sized 1000 kW or less should be based on the approved and published avoided costs.

Submitted this 4th day of November, 1994.

By ___________

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