BEFORE THE PUBLIC SERVICE COMMISSION
OF THE STATE OF UTAH

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PacifiCorp Proposed Schedule 79 -- New Wind,	)	
Geothermal, and Solar Power Rider	)	Docket No. 00-035-T01

COMMENTS OF THE LAND AND WATER FUND OF THE ROCKIES ON THE PACIFICORP GREEN RESOURCE TARIFF PROPOSAL

The Land and Water Fund of the Rockies ("LAW Fund") urges the Utah Public Service Commission ("Commission") to reject PacifiCorp's proposed green resource tariff as currently structured. We believe it is fundamentally unfair to green customers and will hinder market development in several ways. Specifically, the LAW Fund has five major concerns with the PacifiCorp filing: (1) the size of the premium charged to green customers and its impact on customer involvement in the program; (2) inconsistencies in the economic arguments and planning scenarios PacifiCorp uses to justify roughly $2.5 million in marketing and other overhead; (3) the lack of specificity about the resources used to satisfy green customer demands; (4) lack of regulatory oversight of utility marketing expenditures; and (5) the fact that customers could end up paying for renewable energy up to two years before it is actually produced. Following a discussion of the regulatory principles that should apply in this case, each of the these concerns is discussed below.

Overall Regulatory Principles

The LAW Fund recognizes that this green pricing program is voluntary. In reviewing this program, however, we urge the Commission to keep in mind that PacifiCorp remains a regulated monopoly utility operating in a franchise service territory that is not subject to competition. Given this, we believe that the Commission and other intervenors must ensure that the proposed PacifiCorp tariff — like any other Commission approved rate — is fair to all customers, especially green customers. The fact that this is a voluntary tariff does not change the expectations of green customers that any tariff that obtains Commission approval is fair and cost-based, nor does it relieve the regulatory community of its usual responsibilities. Indeed, if alternative suppliers could provide a green product competitively in Utah, we believe that any such green product would look substantially different than the PacifiCorp proposal, especially with regard to price. Our subsequent comments seek to move the PacifiCorp proposal toward the type of program that we believe most customers want and which would be most likely to succeed.

I. The Size of the Premium and its Impact on Customer Involvement in the Program

PacifiCorp is proposing a green resource tariff of 4.75¢/kWh. This premium is almost double the premium levels being charged by other utilities that are offering wind-based renewable energy products in the Rocky Mountain region. Moreover, these utilities do not have access to PacifiCorp's high-quality Wyoming wind resource. For example, Platte River Power Authority, a Colorado Joint Action Agency serving four municipalities, currently has a wind premium of 2.5¢/kWh. Likewise, Public Service Company of Colorado, a large investor-owned utility serving the Denver metropolitan area, has a premium of 2.5¢/kWh.

Based on the LAW Fund's understanding of the wind energy costs from PacifiCorp's Wyoming wind site (upon which PacifiCorp has based its premium analysis) and the avoided energy cost assumptions PacifiCorp is using, the 4.75¢/kWh premium seems very high. It is our understanding that, on a levelized basis, the energy costs from PacifiCorp's Wyoming wind site are somewhere in the 4 to 5¢/kWh range (taking into account the currently available federal wind production tax credit).[1] According to the Company, their avoided energy costs are approximately 2.5¢/kWh. Thus, the incremental costs of the wind energy alone (absent any marketing and overhead costs) should be in the 1.5 to 2.5¢/kWh range. With a premium set at 4.75 cents, this suggests that the adder included to recover marketing and overhead costs is somewhere in the range of 2.25 to 3.25¢/kWh. Even at the lower end of this range this accounts for nearly 50% of the total premium.

A. Impact of the High Premium on Large Commercial Customers

We strongly believe including this level of marketing and overhead costs in the premium will jeopardize the success of the program. Over the past three years, the LAW Fund has directly marketed green utility products in Colorado and consulted on green marketing issues nationally. Based on this experience, we believe that the participation of large commercial customers — including universities, non-profit institutions, municipalities, state and federal agencies, and many businesses — are important to the overall success of the program. If the program is properly designed, our experience suggests that these types of customers will purchase significant amounts of renewable energy. However, most larger commercial customers are price sensitive, and will resist paying a high premium, especially if a substantial portion is devoted to marketing and overhead

[1] Question 36 in the Questions and Answers document provided by PacifiCorp as part of the tariff filing shows that the 25-year levelized cost of wind energy out of PacifiCorp's Foote Creek 1 wind project is 4.7¢/kWh, taking into account the currently available federal wind production tax credit. More recently, as part of the resource cost information being developed for RAMPP6, PacifiCorp has estimated the

rather than the incremental costs of the renewable energy itself.

Over the past few weeks, a specific example of this problem has arisen. A number of federal facilities in the West are seeking to aggregate their demands to make a series of large wind purchases as part of the U.S. DOE Wind Powering America initiative. For Utah, the size of the potential purchase could well be in the 10 to 15 MW range. For a 10 MW purchase, a marketing/overhead adder in the 2.25 to 3.25¢/kWh range implies an additional annual cost of between $700,000 to over $1,000,000 dollars per year. Preliminary conversations with some of the federal personnel involved in this effort strongly suggest that federal agencies are unlikely to purchase renewable energy from PacifiCorp at this premium level. These federal entities are sophisticated energy users that are very price sensitive. Moreover, they are already being informed about renewable energy opportunities through the DOE Wind Powering America initiative. As such, they stand to receive little benefit form PacifiCorp's marketing efforts. We our concerned that, if the premium is set at the current level, PacifiCorp will lose an excellent opportunity to make large renewable energy sales to federal facilities. Based on our prior green marketing experience, we believe other larger commercial and industrial customers will have a similar negative response.

B. Impact of the High Premium on Residential Customers

The LAW Fund believes that the high premium will also have an impact on residential customers. Our experience in Colorado suggests that, on average, residential customers participating in green pricing programs are willing to pay about $5 to $6 more per month for clean, renewable energy. While we believe residential customers will still participate in the PacifiCorp program if the

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levelized cost of Wyoming wind to be as low as 3.9¢/kWh.

premium is set at 4.75¢/kWh, we believe that they will purchase roughly half as much renewable energy as they would if the premium did not include PacifiCorp's large marketing and overhead costs. For example, at a willingness to pay threshold of $5 to $6 per month, a customer would purchase only a single 100 kWh block of renewable energy from PacifiCorp. On the other hand, at a lower premium of 2.5 to 3¢/kWh, a customer would purchase two blocks. Thus, we believe that, while the size of PacifiCorp's premium may not dramatically decrease residential customers participation rates in the program, it will significantly impact the level at which they participate.

In sum, we believe that the green resource tariff premium set by PacifiCorp is far too high and urge the Commission to lower it so that it is more closely tied to the actual incremental costs of wind energy and less on PacifiCorp's marketing and overhead costs. It is our belief that, as currently structured, the high premiums are likely to discourage participation by large commercial customers and limit the level at which smaller customers will participate.

II. Inconsistencies in the Arguments Being Used to Justify the Marketing Expenditures

Over the first five years of the program, PacifiCorp proposes to spend $2.5 million on marketing and overhead costs. These costs are to be recovered directly from its green customers. As discussed above, the LAW Fund believes that these expenditures will discourage the level of customer involvement in the program by creating a green premium that is too high. PacifiCorp, however, has argued that these expenditures are justified on the ground that the enhanced marketing will significantly increase program participation. In essence, the Company is arguing that increased participation rates due to aggressive marketing will more than offset lower per customer renewable energy sales arising from the higher premium. However, based on the economic analysis PacifiCorp has provided, the Company appears unwilling to price the renewable energy product based on the level of sales that they have said they expect to achieve with their aggressive marketing campaign.

For example, in its base case analysis, the Company assumes that roughly 25 MW of new wind capacity will be constructed through this program over a five year period, and that over this period roughly 190,000 MWh of wind energy will be sold. The cumulative base case sales of 190,000 MWh suggest that the $2.5 million in marketing and overhead costs can be recovered with only a 1.3¢/kWh marketing/overhead adder to the incremental renewable energy costs. This is substantially less than the 2.25 to 3.25¢/kWh marketing/overhead adder that PacifiCorp is seeking to recover.

We conclude from this that, despite their base case analysis, PacifiCorp is taking a much more conservative approach and setting the actual green resource tariff based on the assumption that significantly lower amounts of renewable energy will be developed — somewhere between 5 and 10 MW. If PacifiCorp is going to use green ratepayer monies to fund an aggressive marketing campaign, then it needs to bear the risk that the marketing will be effective. The LAW Fund believes it is fundamentally unfair for PacifiCorp to require green customers to pay a marketing premium of 2.25 to 3.25¢/kWh, based on the assumption that the marketing effort will, in large part, fail.

III. Resource Specificity

PacifiCorp in its tariff filing is asking its green customers to pay a premium to purchase an unspecified resource — coming from either new wind, solar, or geothermal. Very few tariffs provide this level of flexibility to a regulated monopoly utility. PacifiCorp should be required as part of this tariff filing to specify what resources it intends to use to meet green customer demands. Since the analysis we have seen is based on wind power, we urge the Commission to require PacifiCorp to commit to acquiring new wind.

IV. Oversight of Marketing

The LAW Fund's experience with utility marketing of green pricing programs is that there is a strong tendency for the utility to focus on branding itself as environmentally responsible to gain customer good will, rather than to focus on maximizing the sales of renewable energy. In short, utility marketing efforts can be self-serving and ineffective when measured by actual renewable energy sales. To the extent that the marketing campaign is funded by shareholders this is less of a concern, given that shareholder rather than customer dollars are being spent. In the PacifiCorp proposal, however, green customers are funding the marketing efforts. As such, we urge the Commission to create a forum whereby stakeholder concerns about the utility marketing campaign will be addressed in a timely manner.

V. Concerns Regarding Pre-payment for Renewable Energy Service

Finally, we are concerned with PacifiCorp’s plan to begin collecting money from green customers before the renewable energy is actually produced. Under PacifiCorp's proposal customers could wait as long as two years from the time they begin paying for renewable energy to the time the renewable energy actually comes on line.

Our principle concern with this approach is that this is simply not as straightforward from the customers point of view as being charged for the renewable energy once it actually begins being produced. The most successful green products are the ones that are simple and easy to understand. Even these simple products take explaining to the average customer who often does not know where his electricity comes from and needs an explanation of how he "gets" the green electricity he is purchasing.

If the customer is asked to begin paying for green power before it is actually being fed into the grid and is told that in a certain number of years there will be a "true up" of some sort to make sure that customer payments match renewable energy development, the marketing message becomes muddied. Instead of focusing on the value and benefits of green power, the approach becomes focused on the complexities of program mechanics. Savvy customers will wonder where their money goes until the turbines are producing power. They may ask what happens if the wind project is never developed. In short, this approach adds an unnecessary complexity to the program which is likely to reduce customer purchases.

WHEREFORE, the LAW Fund respectfully requests that the Commission reject the PacifiCorp green resource tariff filing until it is modified so that it is fair to green customers and more likely to succeed.

DATED this 23rd day of March 2000.

Respectfully submitted,

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