State of Utah

DEPARTMENT OF COMMERCE
Committee of Consumer Services

To: The Public Service Commission of Utah

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Date: 4 November 2002

Subject: Docket No. 02-035-T11 – Recommendations Regarding PacifiCorp's Request for Approval of Procedures, and its Proposed Schedule 38, for Sales of Power Exceeding 1MW to the Company by Qualifying Facilities

1 Background

In response to comments from Independent Power Producers (IPPs) regarding barriers to selling power to PacifiCorp (or the Company), the Utah Legislature asked the Public Service Commission of Utah (Commission) to meet with IPPs, PacifiCorp and other interested parties to identify barriers and discuss ways to eliminate them. Commission Chairman Stephen Mecham was asked to report on the matter during the 2002 Legislative Interim.

IPPs indicated that one of the major barriers is the lack of specific procedures for selling power to PacifiCorp. In response to these comments, on 7 October, 2002, the Company filed a proposal with the Commission for a new Electric Service Schedule 38. The purpose of the filing is to establish procedures for sales of power to the Company by qualifying facilities (QFs) with a design capacity greater than 1MW.

2 Analysis

The Committee of Consumer Services (Committee) believes this filing is the first step in establishing a structured application process involving significant sales of QF power to PacifiCorp. We examined the filing to determine whether the proposed process eliminates existing barriers by providing a reasonable application and review protocol for major QF projects. We also think it is vitally important that potential QF projects are evaluated using rigorous and transparent analytical methods to ensure Utah ratepayers do not subsidize the development of QF capacity. The Committee's initial concerns are directed at four areas:

2.1 Effective Date

PacifiCorp has asked that its proposed Schedule 38 become effective 7 November 2002. The Committee believes this date should be suspended a minimum of thirty days to allow the Commission sufficient time to evaluate the filing, and receive comments from other parties.

2.2 Time to Deliver Generic Purchase Power Agreement

The proposed Tariff states under Section 1, Paragraph B-1, Process for Negotiating Power Purchase Agreements - Procedures, that the Company will provide the QF a copy of its generic power purchase agreement within 30 days of receipt of a written request from the QF. There appears to be no good reason why it should take the Company 30 days to provide a generic power purchase agreement. A generic agreement should be made available for download from the Company's website, or furnished by the Company within one week of receiving a written request.

The rationale for sending a QF the generic power purchase agreement as soon as possible (which would be immediately if PacifiCorp makes it available on its website) is as follows:

2.2.1 Schedule 38 should provide a fair and transparent set of procedures for the Company and potential QFs to negotiate for PURPA avoided cost rates, and these procedures should not be overly burdensome or time consuming so as to present unnecessary barriers to QFs.

2.2.2 The sooner the generic power purchase agreement is available to the QF the sooner it will be in a position to decide whether the terms and conditions are favorable enough to make the effort to negotiate a power purchase agreement worthwhile.

2.2.3 At the time the QF submits a request for a generic power purchase agreement, the QF could submit the information PacifiCorp requires under Section 1, Paragraph B-4, which should expedite the review process.

2.3 Method for Determining Power Purchase Prices

PacifiCorp's Tariff does not identify and explain the methods or models used to calculate avoided cost capacity and energy rates. The avoided cost methodology should be clearly set forth in the Tariff. In addition, a QF should be assured that if PacifiCorp requires capacity and energy, it will receive both avoided cost capacity and energy payments. Unless such an assurance is included in the Tariff, PacifiCorp could argue that it is not obligated to offer such payments and it could prevent the negotiations from culminating in a mutually acceptable contract. Regarding the area of avoided cost methodology, the Committee offers the following more detailed comments;

2.3.1 Capacity Payment

The Committee's view is that the appropriate procedure for determining capacity prices for a QF project should be consistent with the resource evaluation process used by the Company in its Integrated Resource Plan (IRP). Since the Company uses the IRP to determine the value of different resources to its system, then it is appropriate that the value provided by a QF should be derived in a procedure similar to the one developed in the IRP. That is, if 50MW of QF capacity can be shown to provide the same value to PacifiCorp as 50MW of resources it planned to acquire or build (as ascertained through the IRP process), then the QF should be paid accordingly.

2.3.2 Energy Payment

The avoided energy cost should similarly be determined in a method consistent with the IRP. Generally, the Company should rely on its production cost model to determine the value that the QF provides to PacifiCorp's system and use IRP data as a baseline, with appropriate updates of that data through time. Two production cost runs should be made, one without the QF and the other with the QF. The difference in results from the two runs would equal the avoided energy cost. The expected operating characteristics (heat rates, capacity factor, etc.) of the QF should be provided to the Company so that it can properly model and evaluate the project.

2.3.3 Sequential Value of QFs

Making the avoided cost method consistent with the IRP will ensure that PacifiCorp takes into consideration any prior QFs that had already been added to the system. For example, assume that two QFs exist, one that had already been added to PacifiCorp's system and one that is currently making application under Schedule 38. When PacifiCorp makes production cost modeling runs, the existing QF would be modeled in both runs. Assuming all other factors are held constant, this approach should show that the benefit of the new QF to PacifiCorp's system is reduced to some extent.

2.3.4 Ancillary Benefits

One additional modeling issue needs to be addressed. The manner in which the QF is modeled needs to fully consider all of the benefits that the QF provides to the utility. If the QF can provide ancillary services in the form of spinning or quick start reserves, then those features need to be captured in the model in order to credit the QF for the value it provides. Similarly, if a QF provides less value to the utility than one of its own units in regard to these ancillary services, then the QF should certainly not be compensated for those services.

2.4 QF Power Purchase Agreements—Standard Review Period

The proposed Tariff appears to permit an unusually long amount of time before the Company would reach a point of making a commitment. While PacifiCorp should have adequate time to review major QF projects to ensure that the prices, terms and conditions associated with the contract are reasonable, it should also be held to some standard to expedite the process. Implementing a standard review period would require PacifiCorp to be more serious about the initial proposal that it makes to the QF.

3 Recommendations

The Committee recommends that the Commission adopt the following changes regarding PacifiCorp's proposed Electric Service Schedule 38:

3.1 The effective date should be suspended a minimum of 30 days to allow the Commission adequate time to review comments from other parties.

3.2 The generic power purchase agreement should be available on the Company's website or available upon request within a week from PacifiCorp to expedite the application process.

3.3 The avoided cost methods used to determine power purchase prices under Section 1, Paragraph B-3 should be clearly identified and explained. This will enable QFs to more fully understand the basis for the prices proposed by the Company, and therefore reduce the time needed to negotiate a final power purchase agreement.

3.4 The procedure for determining capacity and energy prices should generally be tied to the same review and evaluation process used in PacifiCorp's IRP. This should simplify the negotiation process, protect PacifiCorp against unreasonable demands from QFs, and avoid improper subsidization of QFs by ratepayers.

3.5 In its present form, the wording in the Tariff allows PacifiCorp to delay the evaluation process for arbitrary reasons. This may be a barrier that the Company could erect to impede negotiations. PacifiCorp should be directed to make a commitment in a more definitive manner. The Commission should seek further input from all parties with the objective of establishing a standard review period.

4 Conclusion

The Committee urges the Commission to adopt these recommendations. We believe they address concerns raised in the Company's filing and will result in an application process that is more fair and reasonable for QFs, PacifiCorp and ratepayers.