

Memorandum

To: Utah Public Service Commission
Steve Mecham, Chair
Connie White, Commissioner
Ric Campbell, Commissioner

From: Division of Public Utilities
Lowell Alt, Director
Judith Johnson, Energy Section, Manager
Artie Powell, Utility Economist

Date: January 17, 2003

Subject: Docket No. 02-035-T11, Schedule 38
Commission Action Request, January 8, 2002

Summary and Recommendations

On December 13, 2002 PacifiCorp filed a revised tariff (Schedule 38) specifying procedures leading to power purchase agreements for qualifying facilities greater than one megawatt. The tariff is divided into two parts. The first part specifies the process for negotiating a purchase power agreement (“PPA”). In general, the first part specifies the procedures to be followed leading to the development of an indicative pricing proposal and (potentially) an acceptable PPA. The second part specifies the process for negotiating an interconnection agreement. As the tariff states, the process for the interconnection agreement will follow the procedures outlined in Part IV of PacifiCorp’s Open Access Transmission Tariff. Both agreements are necessary for PacifiCorp to purchase power from qualifying facilities (“QFs”).

The Division of Public Utilities (“Division”) has reviewed the revised tariff and recommends its adoption. However, there are several unresolved issues including specification of the methodology to calculate the avoided costs by which specific QF proposals will be evaluated. While these unresolved

issues are not, in the Division's opinion, sufficient to delay adoption of the tariff, they are of concern. Therefore, the Division recommends that the informal working group originally established by the Commission to investigate QF matters continue working toward a resolution of these issues. Furthermore, the Division recommends that work group meet as soon as possible to enumerate the remaining unresolved issues and propose a schedule for completion.

Discussion

On October 7, 2002, PacifiCorp filed with the Utah Public Service Commission ("Commission") an application requesting approval of Schedule 38, which sets forth procedures for sale of power to PacifiCorp by qualifying facilities greater than one megawatt. The Division, at the request of the Commission, submitted comments on PacifiCorp's proposed tariff on October 31, 2002. The Committee of Consumer Services ("Committee") and Renewable Energy Systems, North America, Inc. ("RES"), filed comments on November 4th. US Magnesium LLC ("US Magnesium") filed comments on November 29th. The Commission issued an order on November 12, 2002, which suspended the tariff pending further Commission action, and allowed PacifiCorp an opportunity to review and respond to the filed comments. In a meeting held December 12, 2002, PacifiCorp discussed party's comments and potential changes to the tariff with the Committee, Division, RES, and US Magnesium. PacifiCorp filed its responses and a revised tariff with the Commission on December 13, 2002.

The (revised) tariff establishes a process to negotiate a PPA and an interconnection agreement, both of which are necessary in order for PacifiCorp to purchase power from a QF. The revisions reflect both the written comments submitted by the various parties and the discussion among the parties at the December 12th meeting. For example, in its memo dated October 31, 2002, the Division recommended that a generic PPA be made available on PacifiCorp's web site. The revised tariff adopts this recommendation, thus shortening the

negotiation process by thirty days. The revised tariff also states that PacifiCorp will provide (along with the indicative prices) a description of the methodology used to develop the prices. Other revisions to the tariff should, in the Division's opinion, alleviate many of the concerns expressed by the various parties. Therefore, the Division recommends that the Commission adopt the proposed (revised) tariff specifying procedures leading to power purchase and interconnection agreements for QFs greater than one megawatt.

In our comments filed October 31, 2002, the Division raised concern that the original QF tariff did not specify a methodology for calculating PacifiCorp's avoided costs. Several other parties voiced the same concern. This issue was discussed in the meeting held on December 12th. It is the Division's understanding that this issue (as well as others) would be the topic of future discussions and that the work group would continue to work towards a resolution. While the revised tariff indicates that a description of the methodology will be made available, the methodology has not (to the Division's knowledge) been finalized. Additionally, in its filed comments and in discussion during the December 12th meeting, US Magnesium expressed a desire to be able to evaluate the models used to develop PacifiCorp's avoided costs as they apply to a QF proposal. PacifiCorp, in its comments accompanying the revised tariff, "opposes the suggestion that its IRP model be provided to potential QF developers," claiming the model contains proprietary information. In light of these (and possibly other) unresolved issues, the Division recommends that the Commission continue its sponsorship of the QF work group and instruct the group to meet as soon as possible to enumerate any remaining issues and propose a schedule for their resolution.

CC. Rea Peterson, Division of Public Utilities
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