

EXHIBIT NO. <u>2</u>
Cas. <u>03-035-14</u>
Date <u>5-19-04</u>
Witness <u>Lori Curtis Bramble</u>
Reporter <u>Susan Sprague</u>

SENATOR
LEONARD M. BLACKHAM

TWENTY-FOURTH DISTRICT
JUAB, PIUTE, SANPETE, SEVIER,
TOOELE and WAYNE COUNTIES

UTAH STATE SENATE

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May 19, 2004

Richard Campbell,
Chair, Utah Public Service Commission
Heber Wells Building
160 East 300 South
Salt Lake City, UT 84111

Dear Commission Chair Campbell and commissioners:

As part of the May 19, 2004, public hearing on Docket 03-035-14, I respectfully request that my comments be read as part of the record. Because of conflicting schedules, I will be unable to attend the public hearing.

An electrical industry in Utah that is efficient, reliable, diverse in its energy resources, and adequate to meet the growing needs for Utah's citizens is critical to the long term health of Utah's economy. Towards this aim, the Utah Legislature has expressed a clear policy to "encourage independent energy producers to competitively develop sources of electric energy not otherwise available to Utah" and to "remove unnecessary barriers to energy transactions involving independent energy producers and electrical corporations." See Utah Code Ann. § 54-12-1. My sponsorship of S.B. 19, "Sales and Use Taxes - Exemption for Energy Related Equipment and Machinery" (2004 Gen. Sess.) is consistent with a governmental environment that encourages the development of efficient small power production and cogeneration facilities.

Under state law the Public Service Commission is charged with establishing reasonable rates, terms, and conditions for the purchase or sale of electricity, electrical generating capacity, or both involving independent energy producers. Further, under federal law the Public Service Commission plays a role in determining the avoided costs pricing for a utility's purchase of power or capacity from qualified facilities. In reviewing an avoided costs methodology, the Public Service Commission must look to the avoided costs of the regulated purchasing utility. However, the overall legislative policy of encouraging the development of independent energy producers should not be ignored in any system establishing the rates, terms, and conditions for electric transactions involving independent energy producers. Independent energy producers or qualifying facilities are only viable if they are able to adequately recover costs.

Public Service Commission

May 19, 2004

Page 2

Under our current regulatory environment, a healthy regulated utility is necessary to address the high demand for electricity, the burdens on the transmission system, and the need for reliable energy resources. However, because of the large capital outlays that may be required to meet the needs of Utah's citizens, viable independent power producers would only strengthen the electrical market. Therefore, I hope the Public Service Commission will act in a manner consistent with the clear legislative policy directive to encourage the development of independent energy producers. If further legislative direction is needed to facilitate the development of independent power producers, I request that any action the Public Service Commission may take allows for the Utah Legislature to act in the future to ensure that Utah's energy market remains efficient and reliable for Utah's citizens.

Sincerely,

A handwritten signature in black ink, appearing to read "Leonard Blackham".

Senator Leonard Blackham

Senate Chair, Public Utilities and Technology Interim Committee

Senate Chair, Energy Policy Task Force