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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of)	<u>DOCKET NO. 03-035-T10</u>
PACIFICORP, dba Utah Power & Light)	
Company, for Approval of Standard)	
Rates for Purchases of Power from)	PacifiCorp's Reply to Petitioners'
Qualifying Facilities Having a Design)	Request for Agency Review and
Capacity of 1,000 Kilowatts or Less)	Reconsideration

PacifiCorp files this Reply pursuant to the provisions of Public Service Commission of Utah (the "Commission") rule R746-100-11F. Petitioners Utah Energy Office, Wind Tower Composites LLC, Utah Clean Energy Alliance, Wasatch Clean Air Coalition, Renewable Energy Development Corporation, and Tasco Engineering (the "Petitioners") sought agency Review and Reconsideration of the Commission's June 1, 2004 Decision in the Docket referenced above in a request filed on or about June 30, 2004.

A. Background

On June 1, 2004, the Commission issued its Order setting tariff rates and terms and conditions for Utah Qualifying Facilities ("QFs") having a design capacity of 1,000 Kilowatts or less. Among other things, the Commission adopted certain energy and capacity payments for QFs that meet specified eligibility conditions.

1. Capacity Payments

Petitioners' request for Review and Reconsideration assumes that wind QFs would not receive any capacity payments under the Commission authorized rates. This reflects a misunderstanding of the criteria utilized to determine whether payments to QFs will be limited to energy payments only. In fact, QFs that provide power to PacifiCorp during peak hours will receive both energy and capacity payments.

The sole difference between the Schedule 37 on-peak and off-peak avoided cost prices is the inclusion of a capacity payment in on-peak prices. To add a capacity payment to on-peak avoided costs, the Company took the avoided capacity cost in dollars per year and divided it by 4244 hours per year. The 4244 hours is 8,760 hours per year multiplied by 85% (the capacity factor for a combined cycle combustion turbine), multiplied by 57% (the percentage of peak load hours in a typical year). Under this methodology, a QF with an on-peak capacity factor of 85% will receive the Company's full avoided cost capacity payment.

Since wind is intermittent, the Company cannot rely on wind QFs to provide capacity during on-peak periods. Given this reliability characteristic, arguably wind QFs should not receive any capacity payments. However, under the current Commission-approved methodology, a wind QF gets a partial capacity payment based upon the number of MWHs delivered on-peak. If a wind QF delivers at a 30% capacity factor during on-peak hours, it will be paid 35.3% (.30/.85) of the Company's capacity payment.

The currently-authorized rates therefore do not "deny" capacity credits to wind QFs and are not discriminatory and contrary to the provisions of U.C.A. § 54-4-4. The authorized avoided cost rates do not create an "unnecessary barrier" to small-scale QF projects; rather, the rates are generous and will encourage small-scale QF development.

PacifiCorp therefore asks the Commission to deny Petitioners' requested capacity payment relief for such relief is already provided in the authorized avoided cost rates.

2. Megawatt Cap

Petitioners request a review of the Order's 10 MW cap on eligible QF projects and ask the Commission to increase the cap level to 50 MWs. The Company does not believe that the 10 MW cap adopted by the Commission is an impediment to QFs and the Company opposes Petitioners' request to increase the cap. PacifiCorp submits that there is no evidence on the record to support the proposition that the proposed 50 MW cap is necessary to encourage the development of QF projects. Indeed, even if the 10 MW cap were reached, the consequence is a recalculation of the Company's avoided costs, not a prohibition on further QF contracts.

Dated this ____ day of July, 2004.

Respectfully submitted,

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CERTIFICATE OF SERVICE

I hereby certify that on this 13th day of July 2004, a true and correct copy of the foregoing PacifiCorp's Reply to Petitioner's Request for Agency Review and Reconsideration was served via e-mail, to the following:

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