

-BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH-

In the Matter of the Petition of Spring Canyon LLC for Approval of a Contract for the Sale of Capacity and Energy from its Proposed QF Facilities )	<u>DOCKET NO.05-035-08</u>
)	
)	<u>DOCKET NO. 05-035-09</u>
In the Matter of the Petition of Pioneer Ridge LLC & Mountain Wind for Approval of a Contract for the Sale of Capacity and Energy from its Existing and Proposed QF Facilities )	
)	
)	<u>DOCKET NO. 03-035-14</u>
In the Matter of the Application of PacifiCorp for Approval of an IRP-based Avoided Cost Methodology for QF Projects Larger than One Megawatt )	<u>REPORT AND ORDER</u>
)	
)	

ISSUED: April 1, 2005

SYNOPSIS

The Commission determines that QF pricing contained in the Stipulation approved in Docket No. 03-035-14 may be used for negotiating a QF contract between PacifiCorp and Spring Canyon. The Commission determines, pursuant to the Stipulation, 100 MW of QF capacity remains available for such a contract. The Commission directs PacifiCorp and Spring Canyon to attempt to negotiate a contract consistent with this Report and Order. The Commission lifts its suspension of PacifiCorp’s obligation under Electric Service Schedule 38 to respond within thirty days to a request for indicative pricing. The Commission sets a conference in Docket No. 03-035-14 to schedule proceedings intended to establish transparent, final avoided cost pricing methods.

By the Commission:

PROCEDURAL HISTORY

On May 20, 2004, participants in Docket No. 03-035-14 presented for Commission approval a written stipulation (“Stipulation”) through which the parties had reached a compromise resolution setting avoided cost prices during an interim period for QF projects meeting certain operating criteria specified in the Stipulation.  Signatories of the Stipulation were PacifiCorp, the Division of Public Utilities (“Division”), the Committee of Consumer Services (“Committee”), the UAE Intervention Group (“UAE”), US Magnesium LLP (“US Magnesium”), Desert Power, L.P. (“Desert Power”), and the Utah Energy Office. The Stipulation provided avoided cost prices available for an interim period such that QF projects and QF contracts could be considered while the parties continued their efforts to arrive at a final avoided cost method. The Stipulation specified a total cap of 275 MW of

QF generation which could be provided by QF projects under Stipulation pricing and required an in-service date no later than June 1, 2007.

By Report and Order issued June 28, 2004, we approved the Stipulation and its application to QF matters as an interim resolution. Through the remainder of 2004, we approved a number of QF projects and contracts consistent with the Stipulation's terms as the parties continued to work toward a final avoided cost method.

On September 23, 2004, the Commission issued its Order Approving Tariff Revision in Docket No. 04-035-T10 granting PacifiCorp's request to suspend its Electric Service Schedule 38 ("Schedule 38") requirement to provide indicative pricing to requesting QF's within thirty days.

On September 28, 2004, Spring Canyon LLC ("Spring Canyon") filed a memorandum with the Commission informing the Commission of its several efforts, dating to July 30, 2004, to negotiate a QF contract with PacifiCorp and requesting the Commission increase the Stipulation cap to accommodate its proposed QF project. In addition, Spring Canyon requested that the Commission direct PacifiCorp to engage in good faith negotiations with Spring Canyon to facilitate approval of a QF contract for the greater of the amount of capacity remaining under the cap or the additional amount remaining should the Commission grant Spring Canyon's request to increase the cap.

On October 4, 2004, PacifiCorp responded to Spring Canyon's request, indicating PacifiCorp's belief that approximately 100 MW of capacity remained under the cap and stating its desire to work through issues related to the cap in a Commission docket.

On October 7, 2004, the Commission issued an Order Denying Spring Canyon Energy Request in which we denied without prejudice Spring Canyon's request to increase the cap due to a lack of supporting evidence.

Despite the parties' efforts in Docket No. 03-035-14, no resolution on the question of a final avoided cost method was obtained in 2004 and the parties continued their efforts into 2005. On January 28, 2005, Pioneer Ridge LLC and Mountain Wind LLC ("Wind Generators") filed a Petition in Docket No. 05-035-09 seeking approval of a generic contract to provide approximately 48 MW of QF power to PacifiCorp under modified Stipulation prices. On February 9, 2005, Spring Canyon filed its Petition for Expedited Approval of QF Contract with the Commission under Docket No. 05-035-08 seeking a QF contract with PacifiCorp to provide all remaining capacity under the 275 MW cap for twenty years at Stipulation pricing.

On February 11, 2005, Spring Canyon petitioned the Commission to hold a February 18, 2005, hearing to determine the remaining capacity under the Stipulation cap and find Spring Canyon entitled to contract with PacifiCorp for this remaining

capacity. Also on February 11<sup>th</sup>, the Commission noticed a scheduling conference to be held in Docket Nos. 03-035-14, 05-035-08 and -09 on February 18, 2005, to schedule further proceedings.

On February 18, 2005, ExxonMobil Gas and Power Marketing (“Exxon”) submitted a memorandum to the Commission indicating its interest in obtaining Stipulation pricing under Docket No. 03-035-14 for 75 MW of electricity to be delivered to Utah from its Shute Creek cogeneration facility in Wyoming during calendar years 2006 and 2007.

On February 24, 2005, Spring Canyon filed a Motion to Increase 275 Cap and Motion to Extend June 1, 2007 Deadline in Docket No. 05-035-08. By Scheduling Order issued February 24, 2005, the Commission set a joint schedule for Docket Nos. 05-035-08 and -09, setting filing dates for testimony and hearing dates. The Commission specifically directed parties to address three issues posed by the Commission, viz:

- (1) Does the Stipulation approved in Docket No. 03-035-14 (“Stipulation”) still reflect PacifiCorp’s avoided costs such that it remains the applicable interim method for determining avoided costs?
- (2) If the answer to question (1) is yes, how many megawatts are remaining under the cap contained in Paragraph 10  of the Stipulation?
- (3) If the answer to question (1) is yes, how should the order of eligibility for the remaining megawatts be determined and what is the order?

On February 28, 2005, PacifiCorp filed its Answer in Docket Nos. 05-035-08 and -09 stating the claims of Spring Canyon and the Wind Generators are not ripe for adjudication pending resolution of the method to be used to calculate avoided costs for QF projects over 3 MW.

Following a March 9, 2005, technical conference, on March 11, 2005, PacifiCorp filed its Response to Spring Canyon’s Motions of February 24, 2005, urging the Commission to deny the Motions until such time as a full record could be developed in Docket No. 05-035-08. Also on March 11<sup>th</sup>, Exxon filed a memorandum requesting it be permitted to intervene in Docket No. 03-035-14. Claiming that such intervention could delay scheduled proceedings, Spring Canyon filed its Opposition on March 16, 2005. On March 17, 2005, Exxon entered its appearance in Docket No. 05-035-08 and -09 and responded to Spring Canyon’s Opposition.

We granted Exxon intervention in all three dockets by Order dated March 17, 2005. On this date, we also notified parties that we would take evidence and hear argument regarding Spring Canyon’s Motions of February 24, 2005, at hearing previously scheduled for March 24, 2005.

On March 18, 2005, US Magnesium filed its Petition to Intervene in Docket Nos. 05-035-08 and -09. On March 23, 2005, Desert Power filed its Petition to Intervene in these dockets.

Pursuant to established schedule, interested parties filed testimony and hearing was held March 24<sup>th</sup> and 25<sup>th</sup>, 2005. At the hearing, PacifiCorp appeared through counsel Edward A. Hunter and Jennifer H. Martin, of Stoel Rives LLP; the Division appeared through Assistant Attorneys General Michael Ginsberg and Patricia Schmid; the Committee appeared through Assistant Attorney General Paul Proctor; Spring Canyon appeared through counsel Stephen F. Mecham, Callister Nebeker & McCullough; the Wind Generators and Desert Power appeared through Roger Swenson; Exxon appeared through counsel Thorvald Nelson, Holland & Hart; and the UAE and US Magnesium appeared through counsel Gary A. Dodge, Hatch, James & Dodge. During this hearing, we granted US Magnesium and Desert Power leave to intervene.

#### DISCUSSION AND FINDINGS

**(1) Does the Stipulation approved in Docket No. 03-035-14 still reflect PacifiCorp's avoided costs such that it remains the applicable interim method for determining avoided costs?**

All parties, as indicated both at hearing and in prefiled testimony, continue to support Stipulation pricing as reasonable and in the public interest. PacifiCorp, the Division, and the Committee support Stipulation pricing for any megawatts remaining under the Stipulation cap as long as the cap is not raised beyond its 275 MW limit and the online date for any QF is not extended beyond the June 1, 2007, deadline specified in the Stipulation. The Division notes that the Stipulation represents a reasonable compromise among several competing interests and that agreement to the Stipulation's pricing terms was determined to be in the public interest only because of the limited number of megawatts available for pricing under the Stipulation and the limited time within which QFs seeking Stipulation pricing must come online. Increasing the cap or extending the online date to accommodate some combination of Spring Canyon, the Wind Generators, and Exxon would destroy the balance agreed to by the parties to the Stipulation and thereby increase ratepayer risk pending Commission approval of a final avoided cost method. In addition, PacifiCorp presented testimony that if the cap is lifted, as many as 800 MW of QF projects would seek Stipulation pricing, and that such an increase would result in much lower calculated avoided costs, thereby ensuring that the Stipulation pricing no longer adheres to the ratepayer indifference standard.

Spring Canyon, the Wind Generators, and UAE support the continuing reasonableness of Stipulation pricing and also support raising the megawatt cap to accommodate the proposed QFs represented in these dockets. These parties point to

Stipulation paragraph 9 which permits QFs to request the Commission raise the cap as evidence that the parties to the Stipulation contemplated a potential need for a QF to do so.

We agree with the parties that the Stipulation prices remain reasonable and in the public interest, and find accordingly, but only to the extent that the megawatt cap and online deadline remain unchanged. The cap is integrally tied to the pricing available under the Stipulation and we find that retaining the cap at its current level, pending final resolution of the avoided cost issue, is necessary. By retaining this cap, we preserve the reasonable balance reached in the Stipulation between encouraging QF development and maintaining ratepayer indifference. We also avoid a competing process that might require us to continue raising the cap as more and more QFs come forward asking us to do so. We note that this decision in no way precludes QFs from seeking indicative pricing from PacifiCorp and negotiating with PacifiCorp toward a QF contract. They must simply do so outside of the pricing set forth in the Stipulation, as discussed hereafter.

We likewise conclude extending the Stipulation's June 1, 2007, online date would not be in the public interest. It is clear this date was chosen to ensure that any QF receiving the benefit of Stipulation pricing would be online and providing electricity to PacifiCorp prior to the anticipated peak capacity deficit of the summer of 2007. Extending this deadline would necessarily disregard the central determination of the parties to the Stipulation that the public interest is best served by requiring QFs enjoying Stipulation pricing to be online prior to this date. We therefore deny Spring Canyon's Motion to Increase 275 MW Cap and Motion to Extend June 1, 2007 Deadline.

**(2) If the answer to Question (1) is yes, how many megawatts are remaining under the cap contained in Paragraph 10 of the Stipulation?**

In order to determine how many megawatts remain available under the Stipulation cap, we must first determine whether both firm and non-firm QF contracts entered into under Stipulation pricing count against the cap. To date, we have approved a total of four QF contracts under Stipulation pricing, one (Desert Power) providing firm capacity and the other three (Kennecott, Tesoro, and US Magnesium) opting instead for non-firm pricing. All parties agree that, taken together, these contracts account for approximately 175 of the 275 megawatts available under the cap, leaving 100 megawatts remaining for one or more additional QFs.

However, UAE and Spring Canyon argue non-firm QF contracts should not count against the cap. UAE provided testimony that the primary reason for the cap was to protect ratepayers from a perceived risk of long-term fixed capacity payments prior to Commission approval of an avoided cost method. UAE argues that because non-firm contracts receive energy-only

payments, the number of megawatts approved for non-firm pricing under the Stipulation should cause little concern for ratepayers and therefore need not be counted against the cap. In addition, Spring Canyon testified the cap should not include non-firm contracts and that excluding them from consideration would result in approximately 180 MW remaining under the cap. Spring Canyon further asserted a QF should be able to claim the megawatts and years remaining when contracts with terms less than the full twenty years permitted by the Stipulation expire so long as that QF originally came online prior to the Stipulation's June 1, 2007, deadline.

PacifiCorp, the Division, the Committee, and the Wind Generators, on the other hand, argue the Stipulation makes no distinction between firm and non-firm capacity as it relates to the cap. They point to paragraph 9 of the Stipulation which states "The Parties agree that the Appendix A Prices should be available to any QF contract approved during the Interim Period so long as power from the QF project will be available to PacifiCorp by no later than June 1, 2007, up to a cumulative cap of 275 MWs for all QF projects approved during the Interim Period combined." The unambiguous use of the words "any" and "all", they argue, makes clear non-firm QF projects were intended to count against the cap. The Committee also points out that the cap was set during Stipulation negotiations to accommodate the capacity of several potential QFs who have since opted for non-firm contracts so there is no reason to apply only firm capacity contracts to the cap.

PacifiCorp, the Division, and the Committee were joined by UAE and U.S. Magnesium in disagreeing with Spring Canyon's view that megawatts become available under the cap as the short-term contracts for those megawatts expire. Not only does the Stipulation contain no hint of such an entitlement, but it also contemplates QF pricing under the Stipulation is to be available for *up to* twenty years. The Stipulation, they argue, does not provide QF developers an absolute entitlement to Stipulation pricing of 275 MW for twenty years; it merely provides QFs the option to contract for up to twenty years. Additionally, UAE and U.S. Magnesium assert the QFs holding these contracts ought to be entitled to renew those contracts up to the twenty year maximum at Stipulation pricing so long as at the time of renewal the Commission has not resolved the final avoided cost issue.

We conclude the most reasonable interpretation of the Stipulation comes from the plain meaning of its terms. Not only does the Stipulation cap fail to distinguish between firm and non-firm contracts, but the Stipulation specifically makes its terms available to *any* QF and states the 275 MW cap is cumulative for *all* QFs approved during the interim period. We therefore find the four QFs approved under the Stipulation to date account for approximately 175 MW, meaning 100 MW remain under the cap. We further conclude Spring Canyon's claim of entitlement to additional megawatts as other short-term QF contracts expire was neither contemplated by the parties to the Stipulation nor is reasonable under the plain meaning of the Stipulation's terms.

**(3) If the answer to Question (1) is yes, how should the order of eligibility for the remaining megawatts be determined and what is that order?**

We note at the outset neither PURPA, Utah law, nor the Stipulation specifically address a Commission role in determining the order in which an electric utility must negotiate or enter into contracts with competing QFs. However, the total capacity sought by the parties hereto exceeds the balance of 100 MW remaining under the Stipulation cap. By its very nature, therefore, this cap requires us to play such a role where more than one QF is seeking to contract for the limited remaining megawatts under the cap.

Spring Canyon supports a “first to file” or “first in line” queuing mechanism to determine which QF project stands first in line to negotiate a contract for the remaining 100 megawatts. The Wind Generators also implicitly support such a mechanism but limit the Commission’s role to approving QF contracts brought before it. The Division rejects the “first to file” rationale and instead recommends that who stands first in the queue should be determined on the basis of several criteria, such as: (1) which QF is best able to provide energy and/or capacity by the online date of June 1, 2007; (2) which QF can provide energy and/or capacity under the pricing terms of the Stipulation as written; (3) which QF has provided sufficient information to demonstrate a level of development adequate to meet the online date of June 1, 2007; and (4) which project provides the best economic benefit to ratepayers associated with the lowest risk to ratepayers?

Having analyzed each of the QFs using these criteria, the Division concluded the Wind Generators are unable to meet the availability criteria specified in the Stipulation and are therefore not entitled to the capacity payments they have stated would be necessary to make their projects economically viable. In evaluating the viability of Spring Canyon’s QF, the Division remains concerned, based on Spring Canyon’s own stated engineering and construction time line as well as the Division’s experience with the Desert Power QF, that Spring Canyon may not be able to meet the June 1, 2007, online deadline. In contrast, the Division notes Exxon’s QF is already operating and its proposed short-term contract appears to benefit ratepayers by further limiting the risk associated with entering into long-term contracts pending Commission determination of the appropriate avoided cost method. Therefore, the Division recommends Exxon be awarded the first opportunity to contract for the remaining megawatts.

Exxon supports the Division’s viability analysis, pointing out its QF is already operational and providing power under contract to PacifiCorp in Wyoming. Exxon also points out its project best mitigates any risk stemming from Stipulation pricing because it seeks pricing under the Stipulation for only two years instead of the twenty year terms sought by the other proposed QFs.

The Committee also recommends Exxon be placed first in the queue. It recommends the Commission place priority on a project's construction risk, economic viability, and contract term. The Committee's overriding concern in recommending Exxon is to mitigate any ratepayer risk as much as possible by limiting the term and amount of any contracts still to be entered into under the Stipulation. Since Exxon represents the least construction risk, is the most economically viable, and has the shortest requested contract term of any of the proposed QFs in this proceeding, the Committee recommends placing Exxon first in the queue.

Because we have already decided above that Stipulation pricing remains reasonable so long as the megawatt cap is not increased nor the online deadline extended, and because we have decided not to increase the cap nor to extend the deadline, we are not persuaded that the length of any proposed QF contract affects our application of the Stipulation. Nor are we inclined to adopt the criteria recommended by the Division, for doing so would beg further questions, such as which of these criteria should be given the greatest weight, what other criteria should be considered, and at what point in the process might additional QFs be barred from coming forward and claiming that they are "better" than those QFs already in the queue? The Commission historically has not considered QF project viability in approving avoided cost contracts. In applying the Stipulation, basic principles of fairness and due process lead us to conclude a reasonable course is to apply the "first in line" approach advocated by Spring Canyon.

In support of its claim to be first in line, Spring Canyon points to a series of correspondence beginning July 30, 2004, in which it indicated to PacifiCorp that it intended to pursue Stipulation pricing for its proposed QF project. Having exchanged correspondence with PacifiCorp, Spring Canyon submitted a memorandum to the Commission on September 28, 2004, requesting the Commission raise the cap and order PacifiCorp to enter into good faith negotiations to facilitate a QF contract. This, claims Spring Canyon, is sufficient notice of its intent to contract for the remaining megawatts to justify its position at the head of the queue.

The Wind Generators, on the other hand, assert we should draw the line at the point where a QF presents a contract for Commission consideration. They identify their January 28, 2005, petition as representing the first attempt by any QF in these dockets to seek Commission approval of a proposed contract with PacifiCorp so the Commission should act upon their petition, order PacifiCorp to negotiate with them, and deduct from the cap the 48 MW they seek for their projects.

For its part, Exxon points out its Shute Creek Cogeneration facility is already operational and it stands ready to contract with PacifiCorp for its desired 75 MW under Stipulation pricing as soon as it is notified by the Commission that it may

proceed. Exxon also notes that, because it intends to contract only for the 2006-2007 time period, its proposed contract would provide electricity during a period when Spring Canyon and the Wind Generators are unable to do so and would only minimally conflict with any other QFs brought online immediately prior to the June 1, 2007, deadline.

As between Spring Canyon, the Wind Generators, and Exxon, we find Spring Canyon was the first to indicate its desire to provide the megawatts remaining under the Stipulation cap. The record shows that before the Wind Generators and Exxon made their filings with the Commission, Spring Canyon was attempting to learn how many megawatts remained under the cap so that it could contract for those megawatts.  We therefore conclude Spring Canyon stands first in the queue to negotiate with PacifiCorp regarding the 100 MW remaining under the Stipulation cap.

We stress to all parties our decision does not preclude the Wind Generators, Exxon, or other existing or proposed QFs from entering into discussions and negotiations with PacifiCorp. In Docket No. 04-035-T10, we granted PacifiCorp's request to suspend the Electric Service Schedule 38 thirty-day time period within which PacifiCorp must provide indicative pricing once a request has been received. We did so in recognition of the fact that no agreed avoided cost method had yet been approved with which PacifiCorp could calculate indicative pricing. Because we herein determine to initiate proceedings in Docket No. 03-035-14 leading to permanent resolution of QF pricing issues, we hereby lift the Schedule 38 suspension approved in Docket No. 04-035-T10 so all QFs seeking indicative pricing can expect a timely response. We remind QFs that in requesting indicative pricing they must comply with the requirements of Schedule 38 and PURPA. We are confident that PacifiCorp can employ its preferred method to arrive at indicative pricing and will consolidate with Docket No. 03-035-14 any disputes arising from PacifiCorp's use of its preferred method.

Having decided the issues presented regarding the continued availability of Stipulation pricing and megawatts remaining under the Stipulation cap, we hereby give notice the Commission will hold a scheduling conference in **Docket No. 03-035-14 on Wednesday, April 13, 2005 at 9:00 a.m.** in Room 427 on the Fourth Floor of the Heber M. Wells Building, 160 East 300 South, Salt Lake City, Utah 84111. The purpose of this conference is to set a schedule for proceedings to resolve the pricing issues associated with QFs over 1 MW, including, but not limited to, establishing a Commission-approved method to calculate indicative pricing under Schedule 38; issues relating to renewable energy QFs, such as ownership of Green Tags, capacity payments, and integration costs; and the impact of Senate Bill 26 on QF procurement. Individuals wishing to participate by telephone should call in to (801) 530-6716 or call toll-free 1-866-PSC-UTAH (1-866-772-8824) at least five minutes prior to the hearing.

In compliance with the Americans with Disabilities Act, individuals needing special accommodations (including auxiliary communicative aids and services) during this hearing should notify Julie Orchard, Commission Secretary, at 160 East 300 South, Salt Lake City, Utah, 84111, (801) 530-6716, at least three working days prior to the hearing.

**ORDER**

Wherefore, pursuant to our discussion, findings and conclusions made herein, we Order:

1. Spring Canyon LLC and PacifiCorp to enter into good faith negotiations consistent with this Order and pursuant to the pricing, terms, and conditions contained within the Stipulation intended to result in a QF contract to be submitted to the Commission for approval.
2. PacifiCorp to file, as necessary, a revised tariff consistent with our determination to lift the suspension granted in Docket No. 04-035-T10. The Division of Public Utilities shall review any revised tariff sheets for compliance with this Order.
3. PacifiCorp to enter into good faith negotiations with the Wind Generators and Exxon.

Pursuant to Utah Code 63-46b-12 and 54-7-15, agency review or rehearing of this order may be obtained by filing a request for review or rehearing with the Commission within 30 days after the issuance of the order. Responses to a request for agency review or rehearing must be filed within 15 days of the filing of the request for review or rehearing. If the Commission fails to grant a request for review or rehearing within 20 days after the filing of a request for review or rehearing, it is deemed denied. Judicial review of the Commission's final agency action may be obtained by filing a Petition for Review with the Utah Supreme Court within 30 days after final agency action. Any Petition for Review must comply with the requirements of Utah Code 63-46b-14, 63-46b-16 and the Utah Rules of Appellate Procedure.

DATED at Salt Lake City, Utah, this 1<sup>st</sup> day of April, 2005.

/s/ Ric Campbell, Chairman

/s/ Ted Boyer, Commissioner

Attest:

/s/ Julie Orchard

Commission Secretary

G#43747 (Docket No. 03-035-14)

G#43748 (Docket No. 05-035-08)

G#43749 (Docket No. 05-035-09)