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Memorandum

To: Public Service Commission

From: Division of Public Utilities
Constance White, Director
Artie Powell, Manager, Energy Section
Andrea Coon, Technical Consultant

Subject: In the Matter of the Petition of Pioneer Ridge, LLC and Mountain Wind, LLC for Approval of a Contract for the Sale of Capacity and Energy from Its Proposed QF Facilities; Docket No. 06-035-90; Re: Docket No. 05-035-09

Date: August 4, 2004

Background

On February 10, 2005, Pioneer Ridge, LLC and Mountain Wind, LLC, (Pioneer) filed a petition and testimony with the Commission requesting approval of a Purchase Power Agreement (PPA) with PacifiCorp under Docket No. 05-035-09. At that time, there was no permanent methodology in place to determine pricing for large QFs in the state of Utah. Instead, there was a stipulation in place that outlined the pricing that would be available to a megawatt limited number of QFs until such time as a permanent methodology could be adopted. The Commission issued a Scheduling Order for this Docket, which was consolidated with Docket No. 05-03508. Pioneer filed Supplemental



Testimony in Docket No. 05-035-09 on February 28, 2005; position statements were filed by UAE and PacifiCorp on March 1, 2005. A Technical Conference was held on March 9, 2005. Voluminous correspondence, including data requests and various motions to the Commission, were exchanged among the parties in March. Testimony was filed by the Division on March 18, 2005. PacifiCorp, Committee of Consumer Services (CCS), Pioneer, Exxon Mobil, UAE, and Spring Canyon filed testimony on March 21, 2005. A hearing was held before the Commission on March 24, 2005 with the Commission issuing its order on April 1, 2005 and issuing a clarification thereof on May 18, 2005. Following this clarification, no further actions were taken in this Docket until March 10, 2006, when Pioneer again requested Commission intervention.

On March 10, 2006, Pioneer filed testimony with the Commission requesting approval of a new proposed contract as well as Commission intervention in disputes between Pioneer and PacifiCorp. PacifiCorp responded by requesting a Scheduling Conference on March 21, 2006. PacifiCorp, Wasatch Wind, and Pioneer filed testimony on April 19, 2006; the Division filed on April 28, 2006. A hearing was held on May 1, 2006. The Commission issued a final order resolving the disputes in this Docket on May 19, 2006.

On July 18, 2006, PacifiCorp filed for approval of a contract meant to incorporate the various Commission orders in this and other dockets. The Commission issued a Scheduling Order on July 20, 2006 that scheduled a hearing in the matter for August 7, 2006.

Analysis

The proposed PPA is for an amount of between 66.5 and 73.5 MWs and is for the Pioneer Ridge site only. Mountain Wind, previously a joint applicant in Docket No. 05-035-09, is located in Wyoming and will be delivering its power to an area outside of this Commission's jurisdiction. Therefore, from this point on, all discussion will pertain only to the project under development by Pioneer Ridge LLC (Pioneer Wind).

The pricing contained within the PPA is purported to be based upon Commission Orders in Docket No. 03-035-14, where QF wind pricing under the IRP amount was tied to a proxy wind contract, and Docket No. 05-035-09, where specific pricing and term disputes, including on and off peak pricing, were resolved. The Division is awaiting work papers in order to make a final determination of whether the pricing follows the pertinent Commission orders. The Division will further inform the Commission on this issue at the scheduled hearing on August 7, 2006.

Pioneer requested levelized pricing for the term of the proposed PPA. Based upon the Division's understanding of the Commission Order in Docket No. 03-035-14 dated October 31, 2005, levelization of capacity payments is allowed in a 20-year contract as long as sufficient security to protect ratepayer interest is paid. It was unclear to the Division how only capacity payments for wind could be levelized, given that the proxy price does not contain a capacity/energy breakdown. Given, however, that the Commission's stated purpose in allowing levelization was to aid in financing, the

Division feels that levelization is also justified in the case of a wind QF.¹ The PPA does contain provisions for additional security to protect ratepayers in return for the levelization. The Division is awaiting work papers from PacifiCorp in order to make a final determination of whether the security and the method of levelization are reasonable. The Division will further inform the Commission on this issue at the scheduled hearing on August 7, 2006.

The proposed PPA allows for the sale of the Renewable Energy Credits (RECs) associated with the project to PacifiCorp. This provision is also in keeping with the Commission Order dated October 31, 2005 in that the QF is allowed to determine whether to sell the RECs to PacifiCorp or to keep the RECs and have the value for the RECs as contained within the IRP removed from the contract pricing.

A recent PPA approved in Docket 06-035-76 allowed for variations in the turbine availability provisions from that contained within the proxy. The proposed PPA under consideration here returns to the Mechanical Availability Guarantee (MAG) that was contained within the proxy contract. This MAG creates a maximum percentage of turbines that can be non-operational at any time without the QF being penalized. The MAG is a means of insuring that the QF properly maintains its equipment over the long term and is a means of protecting ratepayer interests.

One of the issues from Docket No. 03-035-14 that the Commission ordered be determined on a case-by-case basis is that of transmission line losses.² In this PPA, transmission line losses are not assigned a value. Therefore, the project, that will be

¹ Docket No. 03-035-14, Report and Order dated October 31, 2005, at page 30.

² Docket No. 03-035-14, Clarification Order dated May 26, 2006, at page 1.

located in Tooele County, Utah, has apparently not shown that it can avoid line losses when compared to the proxy resource located in Idaho; the proxy contract contained no explicit value for line losses. This appears to be consistent with Division testimony in Docket No. 03-035-14 in which the Division argued that avoided line losses should be based upon the marginal differences in distance from load center between the proxy and the wind QF. What the absence of payment in this contract appears to show is that both Pioneer Wind and the Company agree that the Tooele site is not significantly more or less distant from a PacifiCorp load center than the proxy plant is. The Division agrees.

Recommendation for Conditional Approval

The Division recommends that the Commission approve this PPA provided that the Division is satisfied with the documentation regarding pricing and levelization to be provided by the Company. If this recommendation needs to be changed, the Division will inform the Commission of the reasons for the change at the hearing on August 7, 2006.

cc: Dean Brockbank, PacifiCorp
Paul Clements, PacifiCorp
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Roger Swenson, Pioneer Ridge
Committee of Consumer Services