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State of Utah
Department of Commerce
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Division of Public Utilities
CONSTANCE B. WHITE
Director

Memorandum

To: Public Service Commission

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

Subject: Schedule 37, Various Revisions and Updates to Avoided Costs for Small Qualifying Facilities.

Date: August 4, 2004

Background

On July 10, 2006, PacifiCorp (Company) filed various revisions and updates to Schedule 37 for Commission approval. On July 17, 2006, the Commission issued an Action Request to the Division of Public Utilities (Division) requesting an investigation of the requested changes. This memo is intended to serve as the Division's response to the aforementioned request.

Analysis

The proposed revisions submitted by the Company covered three sheets from Schedule 37. The first revision was to 37.2 in which PacifiCorp changed the language to more specifically define holiday periods that will be considered as off-peak. The second

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revision is to 37.3 to reflect changes in avoided cost pricing and contract period. The third revision is to 37.4 and is to update avoided cost pricing.

The first revision is meant to narrow the number of hours that will be considered off-peak. The Division is aware that peak hour definitions do change from time to time and does not object to this proposed revision. The Division did, however, discover that the hour definition of on-peak does not have a time zone attached. Upon discussion with the Company, the Division learned that the hour definition was intended to be measured in Pacific Prevailing Time. In order to avoid any possible confusion, the Division recommends that this time zone distinction is added to the schedule language.

The second and third revisions are largely intended to reflect the new avoided cost run, based upon updated forward curves, load forecast, and resources. A GRID run was used to determine avoided costs for this filing. Avoided Costs will be largely driven by three items: fuel costs, loads, and the resource portfolio. While the Division agrees that the pricing should be updated, we do not agree with one of the primary inputs into the avoided cost run. The fuel costs contained within this avoided cost run are purely forecasted numbers, while the Company's actual fuel costs are not going to be all market or forecast. The Division believes that in order to make the near term avoided costs as accurate as possible, the Company's actual fuel costs should be included where possible. This would mean that any existing fuel contracts held by the Company, either gas or coal, should be included in the avoided cost run. Without these contracts in place, the avoided costs will reflect market forecasts rather than actual avoided energy costs.

The Company updated its load forecast to reflect its most recent long term forecast, completed in June 2006. The Division agrees that the load forecast should properly be updated, even though the IRP which will contain the new forecast has not yet been vetted before the public and the Commission. The reason that the Division believes that this new forecast should still be used is that it better reflects the Company's current view as to what their resource needs will be and when these resources will be needed. In other words, the load forecast is half of what determines the sufficiency period upon which capacity payments are determined for this Schedule.

The other half of what determines the sufficiency period is, of course, the resource portfolio, both existing and planned. The Division also agrees that the avoided cost resource mix should reflect the Company's current existing resource mix so that the sufficiency period can be accurately determined. The Division is uncomfortable with adopting avoided resources from an IRP that has not been acknowledged by the Commission, but realizes that there has to be some set avoidable resource upon which to base avoided costs. Therefore, since neither the 2004 IRP action plan nor the 2004 IRP Update were acknowledged by the Commission, the Division believes that using the planned resources from the Update is a reasonable action by the Company to determine its avoided costs.

Recommendation for Approval with Changes

The Division recommends that the Commission accept the proposed revisions with the following changes:

- The peak hour definition should be changed to include a time zone.
- The fuel prices used in the GRID run to determine avoided costs should be changed to more accurately reflect PacifiCorp's actual fuel costs.

cc: Rea Petersen, DPU
Douglas Larson, PacifiCorp
Mark Widmer, PacifiCorp
Committee of Consumer Services