

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of Utah Associated)	<u>DOCKET NO. 02-2011-01</u>
Municipal Power Systems Request for)	
Authority to Construct an Electric)	<u>REPORT AND ORDER</u>
Generation Facility.)	

ISSUED: January 15, 2003

SYNOPSIS

The Commission grants a certificate of public convenience and necessity authorizing Utah Associated Municipal Power Systems ("UAMPS") to construct and operate a 140 MW natural gas-fired power plant, and associated transmission facilities. The power plant will be located in Payson, Utah. The power plant and associated transmission facilities are hereafter referred to as the "Payson Project."

APPEARANCES

Matthew F. McNulty, III, Esq. Bradley M. Strassberg, Esq. Van Cott, Bagley, Cornwall & McCarthy	For	UAMPS
Patricia Schmid, Esq. Assistant Attorney General	For	The Division of Public Utilities
Reed Warnick, Esq. Assistant Attorney General	For	The Committee of Consumer Services
Steven Alder, Esq. Assistant Attorney General	For	Utah Energy Office, Department of Natural Resources

PROCEDURAL HISTORY

On November 8, 2002, UAMPS (the "Company") filed an Application asking the Public Service Commission (the "Commission") to grant it a certificate of convenience and necessity authorizing construction and operation of a 140 MW natural gas-fired power plant in Payson, Utah, and authorizing construction and operation of associated transmission facilities, at an estimated total cost of approximately \$90 million. The Application was supported by the testimony of, and exhibits submitted, by Douglas O. Hunter, the Company's General Manager, as to the need for additional resources, and the effect of dependence on the existing marketplace; James P. Nolan, COO of Colorado Energy Management ("CEM"), on the Payson Project in general, including its capacity and CEM's

responsibilities regarding the Payson Project; David Tuttle, CFO of the Company, on the Company's plans for financing the Payson Project; and Marshall Emery, Contract Administrator for the Company, on transmission and interconnection agreements that facilitate operation of the Payson Project. A Motion for Entry of Protective Order as to economic exhibits submitted herein was filed by the Company on December 3, 2002. The Protective Order was issued by the Commission on December 6, 2002.

On November 25, 2002, a technical conference was held as requested by the Division staff. On November 26, 2002, a Scheduling Order was issued by the Commission. The Scheduling Order, among other items, set a second technical conference for December 9, 2002, required intervention by third parties on, or before, December 13, 2002, required the recommendations of the Division of Public Utilities (Division) and the Committee of Consumer Services (Committee) to be filed on, or before, December 17, 2002, and set a hearing in the matter for December 19, 2002.

A Petition for Leave to Intervene was filed on December 12, 2002, by Utah Energy Office ("UEO"). The Commission granted the petition to intervene on December 12, 2002. No other parties sought intervention.

On December 17, 2002, the Division filed a memorandum containing its analysis of the Application and its recommendation to the Commission. Prior to commencement of the hearing, the Company agreed to be bound by the recommendations offered by the Division. On December 17, 2002, the UEO filed a memorandum containing its analysis of the Application and its recommendation to the Commission. During the hearing the Company agreed to provide the UEO with the IRP documentation it will file with the Western Area Power Administration.

The hearing was held December 19, 2002, at which time testimony and evidence were received, and witnesses cross-examined.

POSITION OF THE PARTIES

The Company states that the present and future public convenience and necessity requires construction of the proposed Payson Project. The Company explains that the consumer populations to be supplied by the Payson Project are in need of increased energy supply that is not dependent on uncertain and volatile markets. The Company has determined that construction of a 140 MW 1x1 combined cycle generation station, consisting of one gas turbine and one steam turbine, operated essentially as a peaking facility, best addresses these issues. The Payson Project will generate power for Payson Project Members, thereby partially obviating the need for those members to make purchases at

volatile market prices.

The Company testifies that it has entered into a contract with Colorado Energy Management, of Lafayette, Colorado, for plant construction and operation. The Company testifies it has obtained or will obtain all necessary permits, such as air quality approval orders, to both construct and operate the plant. The Company testifies it is fully capable of properly financing the project. In regard to transmission facilities, the Company states that the transmission facilities directly associated with the Payson Project will be constructed and located in Utah County. One portion of the transmission facilities will be constructed and located in Payson and will interconnect with the Sutter Substation located in Payson. A second portion of the transmission facilities will be constructed and located in a portion of unincorporated Utah County. It will interconnect with the Taylor Substation owned by the Strawberry Water Users Association. A third portion of the transmission facilities will be constructed and located in Springville City ("Springville"). The third portion of the subject transmission facilities will connect to the Dry Creek Substation owned by the Southern Utah Valley Power Systems ("SUVPS") which is in turn interconnected with PacifiCorp's transmission system. (Payson and Springville are both Payson Project Members and members of SUVPS). The subject transmission facilities and the above identified substations will ensure that the Payson Project is connected to both the SUVPS and PacifiCorp transmission systems

Based upon its analysis of the Application, and relying upon information presented by the Company, the Division recommended issuance of the certificate of convenience and necessity conditioned upon: (1) the Company's promise to provide the Commission a list of the permits, agreements or approvals required for construction of the Payson Project, and notification when such permits, agreements or approvals are obtained; (2) bi-annual status reports to the Commission during the construction phase of the Payson Project, (3) notification to the Commission if the Payson Project is not timely completed or if there is a default on bonds issued to finance the Payson Project; and (4) notification to the Commission if the Company sells the Payson Project. In addition, the Division recommends that the Company file with the Commission final loan documents, purchase power agreements, and transmission agreements, to the extent that they are different than those previously filed with the Company's application.

Construction of the Payson Project resource cannot alone overcome what the Company identified as, and the Division acknowledged as, a growing imbalance between peak load requirements and the resources available to meet this imbalance. Based upon Company provided information and representations, the Division stated that the Payson Project appears to promote resource diversity, add voltage support, increase reliability, and reduce the risk associated with reliance on wholesale market purchases. Accordingly, the Division noted that the Payson Project is

reasonable and that a certificate of convenience and necessity for the Payson Project should issue.

The Committee did not oppose the Application.

DISCUSSION AND FINDINGS

The Payson Project Members have a combined peak load of 430 MW and are serving approximately 79,000 customers in Utah and another 4,000 customers in Arizona. The combined resources of these participants provide only 62.2% of their current winter peak, and 43.97% of their current summer peak, requirements. Their remaining energy requirements are currently covered by purchases from, among other resources, uncertain and at times volatile wholesale energy markets. The Payson Project is anticipated to replace a portion of these uncertain and at times volatile market purchases, at a price that is equal to, or less than market purchases

The decision to construct the plant was based on the desire to convert the funds used for market purchases to guarantee an equity position in a product that will provide long-term reliable and cost-effective power. UAMPS purchased an average of 250 megawatts (“MW”) on peak in 1999, 2000, 2001 and 2002 from an uncertain and at times volatile market. All parties agreed that construction and operation of the Payson Project will alleviate or offset demand in the marketplace for 140 MW required by the Payson Project Members for a portion of their native load requirements.

There are several transmission or transmission-related facilities included in the Payson Project. First, the Payson substation will provide step-up transformation from the generator to 138 kV and step-down transformation to 46 kV. The 138 kV bus will interconnect with the Payson to Dry Creek 138 kV transmission line. The 46 kV bus will interconnect with the Payson to the Taylor 46 kV transmission line and the Payson line will connect to the to Sutter 46 kV transmission line. There will also be a 12.47 kV circuit connection to the existing Payson distribution system to allow for black start capability for the Payson Project Generator. The existing Dry Creek Substation will be upgraded and enhanced with additional breakers, metering and communication equipment. The existing Taylor Substation will be upgraded and enhanced to become the termination point of the Payson – Taylor 46 kV transmission line being built as part of the Project.

A portion of the physical delivery of the output from the Payson Project will be provided over the new transmission facilities planned as part of the Payson Project. Power will also be transmitted over the current SUVPS transmission system and subsequently consumed by the loads within the SUVPS system. When the loads inside the

SUVPS system do not consume all of the power generated by the Payson Project, it will flow onto the PacifiCorp transmission system to almost always be consumed by other UAMPS members. The Company has adequate transmission rights from PacifiCorp that will allow delivery of the subject power. The Company, Division and Committee agree that there are no concerns regarding transmission facilities regarding the Payson Project.

As presented by the Company, there are two available alternatives to the Payson Project: wholesale market purchases and construction of a different peaking generation facility. Both alternatives were analyzed by the Company, the Division, and the Committee. UAMPS concluded that the Payson Project proposal is superior to continued reliance upon market purchases. No party disagrees with this conclusion. Benefits over the long run, as identified on the record, include portfolio diversity, voltage support, increased system reliability, and, with respect to the alternative of complete reliance on wholesale market purchases, reduced risk of incurring unexpectedly high costs. These collective benefits give the Payson Project an advantage over the wholesale market alternative.

The Company represents, and we accept, that it is and will ensure that gas supplies sufficient to realize proposed project benefits will be obtained. Based on the above observations and requirements, the record reflects that the Payson Project proposal is in the public interest.

The Division recommends issuance of the certificate. The Company testified that all required permits allowing both construction and operation of the plant either have been obtained or are in the process of being acquired. We require the Company to file a list of all such permits that will be needed and to notify the Commission when those permits are received. We believe the record reveals no reason to suspect that all permits will not be timely obtained. The Committee recommends issuance of a certificate approving construction of the proposed power plant and associated transmission facilities.

Based on the record, we find the Company fully capable of financing the construction and operation of the Payson Project in a manner consistent with its obligations as an interlocal entity and the public interest. The Company's testimony supports this conclusion.

We find and conclude that the Payson Project as proposed by the Company is required by the public convenience and necessity, and that such construction will not impair the public convenience and necessity of electrical consumers of the State of Utah. We find that the requested certificate should be issued.

ORDER

1. Pursuant to Utah Code Ann. § 11-13-304 and §54-4-25, the requested Certificate of Public Convenience and Necessity is granted.

2. The Company will: (1) provide the Commission with a list of all permits, agreements or approvals necessary to construct the Payson Project and notify the Commission as each such permit, agreement or approval is granted or executed; (2) provide bi-annual status reports to the Commission during construction of the Payson Project; (3) provide the Commission with notice if the Payson Project is not timely completed and/or if there is a default on the bonds related to the Payson Project; (4) notify the Commission in the event it sells the Payson Project; and (5) file with the Commission the final loan documents, purchase power agreements, and transmission agreements, to the extent that they are different than those previously filed with the Application.

3. Pursuant to Utah Code Ann. § 63-46b-13, an aggrieved party may file, within 20 days after the date of this Order, a written request for rehearing or reconsideration by the Commission. Pursuant to Utah Code Ann. § 54-7-15, failure to file such a request precludes judicial review of the Order. If the Commission fails to issue an order within 20 days after the filing of such a request, the request shall be deemed denied. Judicial review of this Order may be sought pursuant to the Utah Administrative Procedures Act (Utah Code Ann. §§ 63-46b-1 *et seq.*)

DATED at Salt Lake City, Utah this 15th day of January, 2003.

/s/ Stephen F. Mecham, Chairman

/s/ Constance B. White, Commissioner

/s/ Richard M. Campbell, Commissioner

Attest:

/s/ Julie Orchard,
Commission Secretary

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