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IDAHO PUBLIC
UTILITIES COMMISSION

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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF PACIFICORP FOR APPROVAL OF A NEW RENEWABLE ENERGY TARIFF, I.E., ELECTRIC SERVICE SCHEDULE NO. 70—NEW WIND, GEOTHERMAL & SOLAR POWER RIDER—OPTIONAL.	)	**CASE NO. PAC-E-03-9** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Application, Notice of Modified Procedure and Notice of Comment/Protest Deadline issued on July 25, 2003 submits the following comments.

BACKGROUND

On July 11, 2003, PacifiCorp dba Utah Power & Light Company (PacifiCorp, Company) filed a request with the Idaho Public Utilities Commission (Commission) for approval of a new renewable energy tariff, Schedule 70 – New Wind, Geothermal & Solar Power Rider. The Company has requested a September 1, 2003 tariff effective date. Under the proposed program, residential and non-residential customers can purchase newly developed wind, geothermal and solar power energy at a premium of $1.95 per 100 kilowatt-hour block. The premium is in addition to the normal billed rate which includes, but is not limited to, a basic charge as well as energy and delivery charges. The premium covers the costs of the program. These costs include the incremental costs of the new renewable energy, marketing costs and program administration. Under the proposed Schedule 70 tariff, consumers can choose the number of blocks to purchase, which is not dependent on the amount of energy used.

Currently PacifiCorp offers this option, called Blue Sky, to consumers in four other states – Oregon, Utah, Washington and Wyoming. The Company's Blue Sky enrollment roster now includes over 11,500 customers.

Under the Company's proposed tariff, PacifiCorp plans to purchase tradable renewable credits (green tags) and/or bundled green power to satisfy the requirements. Including both purchase options, the Company states, is beneficial to customers as it allows the Company to pass along lower prices. It is also beneficial to the Company because it allows for the more efficient balancing of purchases and sales and will minimize the risk of not achieving a zero net gain or loss at the end of the program life. Green tags are certificates that represent the environmental benefit of renewable energy. They are created when renewable power is produced and substituted for traditional power. Bundled green power is the combination of kilowatt-hours and the green tags associated with them.

As set forth in the tariff schedule, new wind, geothermal or solar power energy will be delivered within two years of when the energy is purchased by the customer. Tradable renewable credits will be delivered within 18 months of when energy is purchased by the customer. PacifiCorp will keep interested parties informed of purchases for the program on a twice per year basis.

As reflected in its filing, PacifiCorp states that several environmental organizations including Renewable Northwest Projects and the Land and Water Fund of the Rockies endorse the Company's program, which meets Renew 2000 standards. Renew 2000 standards were established by a collaboration of interested regional utilities and environmental organizations to ensure that optional renewable energy products offered to consumers in the Northwest met minimum content standards, thus protecting and assuring consumers that such products provide benefit to the environment.

The wind energy purchased on behalf of the Company's Blue Sky customers is in addition to renewable energy investments PacifiCorp has made to serve all its customers. Currently, Blue Sky wind energy purchases come from Foot Creek IV in Wyoming; from wind farms in Condon and Klondike, Oregon; and from the Stateline Wind Facility on the Oregon-

Washington border. At a minimum, all renewable energy generation linked to the program will come from facilities that went online post-January 2000.

ANALYSIS

PacifiCorp first proposed a "green tariff" program on March 10, 2000 in Case No. PAC-E-00-1. On May 18, 2000, the Commission issued final Order No. 28380 in Case No. PAC-E-00-1 denying the Company's Application. In its Order, the Commission stated:

> The Company's filing is a follow-up to a commitment made in the ScottishPower merger proceedings. Although the submitted tariff is structured in such a way that all program costs are paid by participants—marketing costs, program administration, and incremental cost of new energy, we will not approve it at this time.
>
> All parties note that the tariff premium (4.75¢/kWh) exceeds the cost of other regional programs. The Company cautions us in making such a comparison, however, that we do not know whether the renewable premium rates of the other regional energy providers are cost-based, inferring that they may be subsidized. The Company may be right. The fact remains that the cost appears to be too high. Nearly one-third of the proposed premium is apparently for program administration and marketing. The commenting parties are concerned that the Company's focus appears to be more on marketing and promotion than on actual renewable resource development. While marketing and promotion are necessary, resource development should have the benefit of the majority of premium dollars provided to customers.
>
> In the merger case, the overriding customer sentiment in the Company's southeast Idaho service territory was a desire for lower cost electricity. Geographically, the Company's Idaho customers are uniquely situated, surrounded by municipal, cooperative and investor-owned utilities, all providing lower cost power. The Company in this case presents us instead with a higher cost resource. In a separate case, also pending, it presents a rate increase related to the elimination of the BPA exchange credit (Case No. UPL-E-00-1). We cannot ignore that while the Company forecasts a penetration rate of 2.75% on a system-wide basis for its new green tariff, it expects to achieve only half of that penetration rate in Idaho. The Commission finds that regardless of the voluntary nature of the submitted program, we must consider customer acceptance and we have a responsibility to assure fair pricing. While this Commission supports the development of renewable resources, we believe that the Company needs to refine its proposal. Perhaps experience gained in other states will result in program improvements. We encourage the Company to file a "green tariff" for UP&L that supports deployment of renewable resources and is priced to foster customer acceptance.

On May 26, 2000, the Company filed a Petition for Reconsideration with the Commission requesting reconsideration of the Commission's Order No. 23830. In its Petition, the Company asked the Commission to consider the following:

A. A future renewable resource program will likely be more costly than the current proposed program due to the expiration of federal tax credits;

B. Customers have indicated a desire to participate in renewable resource programs;

C. The currently offered program benefits from economies of scale. Designing a program for the estimated 800 PacifiCorp customers in Idaho that are expected to participate would be prohibitively costly.

D. Marketing expenditures have been mischaracterized as representing a high percentage of program costs.

The Commission, in Order No. 28406 denied the Petition, stating:

> PacifiCorp in its petition for Reconsideration proposes no changes in its tariff offering and offers to provide no additional information or facts that would cause us to change our prior decision. The Company continues to offer a higher priced choice to a customer base that wants lower cost energy. We continue to find that the tariff the Company proposed for its southeast Idaho service territory is not priced at a level that would foster customer acceptance.
>
> PacifiCorp should not interpret our decision in this case as opposition to renewable resource programs. The Company-estimated number of Schedule 70 participants in southeast Idaho is extremely small, a much lower expected participation rate than in any of the Company's other jurisdictional service areas. We do not believe the current proposal is the best that can be offered. We expect that the Company will learn from its experience in those states that have approved the tariff and that advances in technology will continue to make wind power and other renewable generation resources more competitive. We find that it is also reasonable in this time of increasing costs for fossil-based fuels to expect that the federal tax credits for renewable energy will not expire but be re-authorized or extended. We encourage the Company to continue to design its renewable energy program based on in experience in other states and refile an improved program in the future. It will be easier for the Company to demonstrate market acceptance with a proven track record. The Commission finds that the Company's Petition for Reconsideration should be denied and Order No. 28380 is reaffirmed.

The current proposal is to implement the same program (Blue Sky) in Idaho that has been offered since 2000 in Oregon, Utah, Washington and Wyoming, but with one key difference from when it was initially proposed in Idaho— the price per 100 kWh block has been substantially reduced. In its earlier proposal in 2000, the Company proposed a price of $4.75 per 100 kWh block. That price has now been reduced to $1.95 per 100 kWh block. The reduced price was implemented in Oregon, Utah, Washington and Wyoming beginning in April 2003. The reduced price is the result of substantially lower costs for green energy and lower overall administrative and marketing costs.

By offering a significantly lower price, PacifiCorp is addressing the Commission's earlier concern about offering a high priced product to Idaho customers already sensitive to high prices. The proposed premium is now more in line with the price premiums charged by other utilities in the region with green energy tariffs, and in fact, is lower than many.

However, despite the lower price now being offered, administration and marketing costs, although lower than before, continue to be responsible for the majority of the price premium. In its program budget for the next four years, the cost of acquiring green power accounts for only about 38% of the $1.95 price premium.

Staff realizes that administrative costs are an unavoidable part of the program costs and that some marketing costs are necessary in order to have a successful program, but at the same time, Staff believes it is very important that the price premium for renewable energy accurately reflect the true added cost of renewables. The cost of renewables, especially wind, has decreased substantially in recent years. In some cases, wind is already competitive with other types of new generation (assuming the production tax credit remains in place). In fact, in the next ten years PacifiCorp has chosen to pursue acquisition of 1400 MW of new renewable generation, primarily wind, out of a total new resource need of 4000 MW. This is in addition to the approximately 70 MW of wind generation already a part of the Company's existing generation portfolio. As the price premium for wind energy continues to shrink, Staff would expect that marketing and administration costs would also shrink so that participating customers are paying a premium that is reflective of the actual difference between wind energy and other sources. It would seem inconsistent for the Company to charge a premium for customers buying wind energy while, at the same time, justifying the acquisition of wind generation for all of its other customers on the basis that it is the least cost resource. The program should not evolve into one in which Blue Sky customers pay a premium for wind generation that is no different or more expensive than the wind generation that is part of the portfolio used to serve all other customers. All new resources, whether wind, gas-fired or something else, are generally more expensive than the utility's existing generating resources. However all customers, not just those who voluntarily choose to pay a premium, ultimately must pay for new resources added to the Company's portfolio.

As expressed in its comments when the Blue Sky program was originally proposed in Idaho, Staff continues to believe that the most important consideration is that non-participating customers not be required to bear any of the program costs. As the program is structured, that is indeed the case. Consequently, only those customers who voluntarily elect to participate will contribute to the program costs, and any excess revenue generated due to program revenues exceeding actual program costs will be used to either reduce the price premium in the future or purchase more green energy.

PacifiCorp expects the following participation levels by year for its Idaho customers:

Year	Participants
1	160
2	250
3	350
4	415

PacifiCorp serves approximately 59,554 customers in Idaho, of which approximately 47,000 are residential customers.

RECOMMENDATIONS

The costs of the Blue Sky program are substantially less than when the program was first proposed in Idaho in 2000, therefore enabling a decrease in premium from $4.75 to $1.95 per 100 kWh block. Administration and marketing costs for the program are still high but are less than when the program was originally proposed. Because the program is strictly voluntary and because all revenue collected from the proposed new tariff will be used to support the program, Staff does not believe non-participating customers will be adversely affected by the program. For these reasons, Staff recommends approval of the proposed tariff in Idaho with an effective date of September 1, 2003. Staff also recommends, however, that the Company continue to evaluate the program costs and the premium on an ongoing basis to insure that participating customers are not paying more for the same renewable energy benefits enjoyed by all PacifiCorp customers.

Respectively submitted this 14th day of August 2003.

Lisa Nordstrom for
Scott Woodbury
Deputy Attorney General

Technical Staff: Rick Sterling

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 14TH DAY OF AUGUST 2003, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. PAC-E-03-9, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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