

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL**

FROM: SCOTT WOODBURY

DATE: AUGUST 19, 2003

**RE: CASE NO. PAC-E-03-9 (PacifiCorp)
ELECTRIC SERVICE SCHEDULE NO. 70
NEW WIND, GEOTHERMAL & SOLAR POWER RIDER—OPTIONAL**

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 Company has recommended an effective date of September 1, 2003. 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 includes over 11,500 customers. Qualified customers may apply for or terminate from Schedule 70 anytime during the year. The Company will not accept enrollments for customer accounts that have a time payment agreement in effect or have received one or more disconnect notices or have been disconnected within the last 12 months.

Under the Company's proposed tariff, PacifiCorp plans to purchase tradable renewable credits (green tags) and/or bundled 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. In addition, it is beneficial to the Company, as 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 program life. Green tags represent an amount of renewable kilowatt/hours sent to grid, displacing less environmentally friendly energy.

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. If there is not availability at the right price to purchase at a level (capped within the \$1.95 retail price) then PacifiCorp will attempt to make purchases at the next level. The reports will summarize purchases and note reasons for choosing a "tier" and, if applicable, foregoing more preferred options in light of available tag supply.

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. All renewable energy generation linked to the program at minimum will come from facilities that went online post-January 2000.

On July 25, 2003, the Commission issued Notices of Application and Modified Procedure in Case No. PAC-E-03-09. The deadline for filing written comments was August 14, 2003. Comments were filed by the Commission Staff and Mr. Mike Settell. Mr. Settell's

comments are attached. Staff recommends approval of PacifiCorp's proposed Schedule 70 tariff with an effective date of September 1, 2003. As reflected in Staff comments, 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 its 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.

Staff states that the Company's current proposal is to implement the same renewable energy program (Blue Sky) in Idaho that has been offered since 2000 in Oregon, Utah, Washington and Wyoming. The one key difference from the tariff that was initially proposed in Idaho is the price per 100 kWh block. In the Company's earlier proposal in 2000, PacifiCorp 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 cost for green energy and lower overall administrative and marketing costs. Staff contends that 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.

Despite the lower price, Staff notes that the administrative and marketing costs continue to be responsible for the majority of the price premium. The cost of acquiring green power accounts for only about 38% of the \$1.95 price premium. As the price premium for wind energy continues to shrink, Staff would expect that marketing and administration costs would also shrink.

Staff notes that in the next ten years PacifiCorp has chosen to pursue acquisition of 1,400 MW of new renewable generation, primarily wind, out of a total new resource need of 4,000 MW. This is in addition to the approximately 70 MW of wind generation already a part of the Company's existing generation portfolio. It would seem inconsistent, Staff contends, for the Company to charge a premium for Schedule 70 customers buying wind energy while, at the same time, justifying the acquisition of wind generation for all of its other non-participating customers on the basis that it is the least cost resource. Staff recommends that the Company continue to evaluate the program costs and the premium on an ongoing basis to ensure that participating customers are not paying more for the same renewable energy benefits enjoyed by all PacifiCorp customers.

As previously expressed in comments on the Company's earlier proposal, 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, Staff believes that that is indeed the case. 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 to reduce the price premium in the future or purchase more green energy.

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

<u>YEAR</u>	<u>PARTICIPANTS</u>
1	160
2	250
3	350
4	415

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

Commission Decision

PacifiCorp requests approval of a new renewable energy tariff, Schedule 70. The tariff structure is similar to the Blue Sky Program previously rejected by the Commission. The difference in the two Applications is a significant reduction in the premium price. Staff recommends approval of the Schedule 70 tariff with an effective date of September 1, 2003. Staff also recommends that the Company continue to evaluate the program costs and the premium on an ongoing basis to ensure that participating customers are not paying more for the same renewable energy benefits enjoyed by all PacifiCorp customers. Does the Commission find it reasonable to approve the Company's proposed renewable energy tariff? With or without Staff's recommendation of continued evaluation?

Scott Woodbury

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Jean Jewell

From: Ed Howell
Sent: Monday, July 28, 2003 3:25 PM
To: Jean Jewell; Ed Howell; Gene Fadness; Tonya Clark
Subject: Comment acknowledgement

WWW Form Submission:

Monday, July 28, 2003
2:24:41 PM

Case:

Name: Mike Settell
Street Address: 2300 Buckskin Rd
City: Pocatello
State: ID
ZIP: 83204

Home Telephone:

E-Mail: micoad@velocitus.net

Company: Pacificorp

mailing_list_yes_no: yes

Comment_description: Current limits on green tags are ~50kW and up. Smaller generators need to be considered in the upcoming request by Pacificorp for renewables. Smaller generator's should have access to green tags. Smaller generators diversify the power supply and create economies of scale as a group. Conversely Pacificorp puts all our eggs in one basket. Therefore, if there is a request to purchase green tags, keep in mind that these will not help small independent generators, for whom they were originally intended.

Second, if Pacificorp is collecting fees for green money, in Idaho, these fees should stay in Idaho. This provides the opportunity for in-state energy dependence and creation of jobs.

Finally, any grant to allow increased access to wind power, via siting and requirements should be offset a comparable amount in hydro. This way, the water could be retained in Idaho for other purposes rather than spinning turbines for California and the West cost. This would also allow for timed flushes needed by migrating salmon.

Regards,

Mike Settell

Transaction ID: 7281424.41

Referred by: <http://www.puc.state.id.us/scripts/polyform.dll/ipuc>

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