State of Utah

DEPARTMENT OF COMMERCE

Committee of Consumer Services

To: The Public Service Commission of Utah

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Date: 26 August 2003

Subject: Docket No. 03-035-14: Comments on PacifiCorp's Revised Application for Approval of an IRP-based Avoided Cost Methodology for QF Projects Larger than One Megawatt.

1 Background

On 7 October 2002, PacifiCorp filed a proposal with the Public Service Commission for a new Electric Service Schedule 38 (Docket 02-035-T11). The purpose of the filing was to establish procedures for sales of power to the Company by qualifying facilities (QFs) with a design capacity greater than 1MW. Based on responses to this proposal from the Division of Public Utilities, the Committee of Consumer Services and Renewable Energy Services North America (RES), on 12 November the Commission suspended the proposed Schedule 38, invited additional comments by 29 November, and ordered PacifiCorp to respond by 13 December.

In its 4 November 2002 memorandum, the Committee recommended that, in addition to other issues that required amendment, PacifiCorp should spell out the avoided cost method that it would use to determine the value of QF capacity and energy in its Tariff. The Committee indicated that it believes that it is important that QF projects be properly evaluated using rigorous and transparent analytical methods. That way, fair payments can be structured for the QF suppliers, and it can be ensured that Utah ratepayers do not subsidize the development of QF projects.

On 13 December 2002, PacifiCorp filed a revised Schedule 38, which the Division and Committee subsequently responded to. In its comments, the Division recommended that the revised Schedule 38 be adopted and the avoided cost method be determined by the parties at a later date. The Committee, however, reiterated that because the same significant issue remained unresolved, the Commission should continue to suspend Schedule 38 until the avoided cost method was defined and implemented. The Committee stated that it believes it is in the public interest for the method to be clearly specified by the Commission before approving a Schedule 38. In addition to determining the avoided cost method, the Committee recommended that the associated issues of energy and capacity payments, the sequential value of QFs, and ancillary benefits should also be addressed.

The Commission issued an order on 24 February 2003 approving PacifiCorp's revised Schedule 38, while also requiring the Company to file, within 90 days of the Order, a proposed avoided cost method.

After further discussions between the parties, PacifiCorp filed its third application on 29 May 2003. On 30 July 2003, the Division filed a memo recommending that the application be accepted on an interim basis while the parties establish a schedule to resolve the remaining issues, mainly the avoided cost methodology.

2 Analysis

As required by the Commission, PacifiCorp met with interested parties through May 2003 to discuss the avoided cost method. While the mechanism provided in PacifiCorp's 30 May 2003 application is largely consistent with that determined by the work group in discussions, the issue of capacity payments remains unresolved.

PacifiCorp has determined that 100MW is the threshold size a QF must meet before displacing a resource. The Company has stated that smaller QFs do not provide capacity value to PacifiCorp, and therefore should not be eligible to receive capacity payments. The Company also indicated that a sequence of smaller QFs collectively displacing 100MW presents too many challenges in determining which, if any, of the QFs should receive capacity payments.

The Committee, however, agrees with the Division that smaller QF projects bring value to the system in responding to growth, as well as reducing pressure on the power supply, transmission and distribution systems. While a QF smaller than 100MW may not completely displace a PacifiCorp resource, the Committee believes it provides, at a minimum, system reliability benefits and, when combined with other QF projects, may postpone the need to build a PacifiCorp-owned resource.

Since PacifiCorp has not recommended a method, the Committee would like to suggest the following approach for determining an avoided cost capacity payment:

> A production cost simulation should be performed using one of the models available to PacifiCorp that is capable of determining the loss-of-load probability on the PacifiCorp system. This model should be run both with and without the QF project

at issue. To the extent that the QF produces a noticeable improvement in system reliability, ie a reduction in the system loss-of-load probability, the QF should be entitled to an avoided cost capacity payment.

The avoided cost capacity payment can be computed based on two determinants. The first determinant is whether or not the QF is able to defer the addition of a new PacifiCorp resource based on the reserve margin impact. If the amount of capacity provided by the QF can defer a resource, then that QF should be entitled to a full avoided cost payment, and the value of the avoided cost payment should be based on the resource that is deferred.

If the QF is not large enough to defer one of PacifiCorp's planned resource additions, the second determinant measures the reduction in loss-of-load probability and computes an avoided cost payment based on the amount of that reduction. The avoided cost then is computed based on a percentage of the value of PacifiCorp's next planned resource addition. A table would be developed in advance to determine the percent of the capacity value that would apply, depending on the reduction in probable loss-of-load. This table could be developed through the working group that has been collaborating with PacifiCorp on its avoided cost matters. For instance, if emergency energy is used as the metric to measure the reliability of the PacifiCorp system, and there is between a 10% and 20% improvement in emergency energy due to the addition of the QF, then the QF should be entitled to perhaps a 15% avoided cost capacity payment, based on the capacity cost of PacifiCorp's next resource addition.

This method permits avoided cost capacity payments to be made even when QF's do not fully defer PacifiCorp resource additions, because the value is based on the increase in reliability provided by the QF. Moreover, loss-of-load probability is a standard calculation that most utilities develop as part of their planning analyses. This proposed approach should be more fully developed by the working group.

3 Recommendations

The Committee recommends that the Commission require the capacity payment issue be determined before approving and implementing the avoided cost methodology for a Schedule 38. The Committee's proposed method by which capacity benefits can be determined should be the starting point for working group discussion.