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**MEMORANDUM**

To: Utah Public Service Commission

From: Utah Division of Public Utilities  
Constance White, Director  
Energy Section  
Abdinasir Abdulle, Technical Consultant  
Jamie Dalton, Utility Analyst II  
Charles Peterson, Technical Consultant  
Artie Powell, Manager

Date: April 6, 2007

Ref: Docket No. 03-035-14. Quarterly Compliance Filing – Avoided Cost Input Changes

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**Recommendations**

The Division recommends that in its next Quaterly Compliance filing the Company

1. Explain how the company official discount rate was derived and why is it different than the discount rate used in the DSM filings (7.126%).
2. Explain why proposed load forecast methodology is expected to produce better results than the current method. The Company should provide the impact of using the proposed load method alone on the avoided cost prices \$/MWh.
3. Remove the 50 MW Blundell capacity expansion.

## **Discussion**

In an order in Docket No. 03-035-14 dated October 31, 2006, the Commission ordered Rocky Mountain Power

We will require the Company to keep a record of any changes, including data inputs, made to the Proxy and GRID models used in this case. The Company shall notify the Commission and Division of any updates they make to the models used in the approved Proxy and PDDRR methods

In Compliance with the above Commission Order, On January 31, 2007, RMP filed its Quarterly Compliance – Avoided Cost Input Changes. The proposed input changes consist of routine input changes and input changes intended to reflect some modifications suggested by the Commission in an order of Docket No. 05-035-47 dated December 21, 2006 plus some other changes.

In an action request dated February 20, 2007, the Commission requested that the Division review these updates and report to the Commission by April 6, 2007. The Commission amended its Action Request indicating that it wishes for the Division to include its review an assessment of the impact of PacifiCorp's filing under MEHC Merger Commitment No. 52 may have on item No. 3 of the Company's compliance filing. This memo contains the Division's review of RMP's Quarterly Compliance Filing.

### **Routine Input Changes**

**Official Market Price Forecasts:** PacifiCorp's filing indicates that the GRID model has been updated to reflect its most recent forward price curve dated December 2006. The Division believes this to be an appropriate change in the model.

**Load Forecast (Retail and BPA South Idaho):** Previously, RMP used 20-year IRP load forecasts. In this filing RMP propose using the October 11, 2006 business plan load forecasts for the first 10 years (2006-2017); IRP growth rates by bubble for the next 10 years (2018-2027), and the average growth rate by bubble of the years 2018 to 2027 for

the period after the first 20 years. The Division does not understand how this change improves the model and how will it impact the Avoided Cost prices \$/MWh. The Division would like the Commission to order the Company to provide its justification for and impact of the change including the impact on the avoided cost prices \$/MWh.

**Discount Rate:** The discount rate has been changed from 7.12 to 7.30. According to the Company, the Company routinely updates the official discount rate. The last time it was updated was December 2006. The 7.3% discount rate is consistent with the last update. However, this discount rate is different than the discount the Company used for its DSM programs. Therefore, the Division would like the Company to explain the how this discount rate was derived, why it is different from that used for DMS programs (7.126%), and confirm that it is the same discount rate being used in the IRP.

### **Commission Suggested Updates**

On December 21, 2006, in Docket No. 05-035-47, the Commission ordered the Company to, among other things,

1. Include language that communicates to bidders the Company's intent to contract for power up to 1,700 MW;
2. Fully Consider any bid through to 2012; and
3. Eliminate the first paragraph on page 52 of the November Draft 2012 RFP in item 4, "Step 4- Final Selection; Other Factors."

In compliance with this order, RMP replaced the IRP resources with the RFP resources that are listed in item 3 of its filing. These RFP resources add up to 1,700 MW. The Front Office Transaction resources from the 2004 IRP (4 Corners, Mona, and West Main) are modified to expire in June 2012. After that the FOT will switch over to add 208 MW in June 2012 to be consistent with Commission suggested RFP resources.

### **Other Updates**

There are other updates that are made to the inputs of the Proxy and the Proxy models. These updates include a change of the Proxy resources to IPP 3, a 340 MW coal fired

resource located in Utah, a change of the Proxy wind resource to Marengo Wind, a 140.5 MW resource with 35% capacity factor located near Dayton, WA, which will be on-line before July 2007, a partial displacement of 817 MW of wind with existing and potential wind QFs and renewable resources, a transmission upgrade, a hydro resource that is recorded to be off-line from November 2006, an increase in the nameplate capacity of Blundale geothermal resource, and updates to long-term contracts, fuel prices and short-term firm transactions.

The Division reviewed the reasonableness of the modifications to the Proxy and GRID models and their impacts on the wind avoided cost pricing and the avoided cost prices \$/MWh that are reported in the Company's filing as Appendix B and C. The Division concluded that the Company's proposed input updates are all reasonable except the expansion of Blundell geothermal plant.

### **Blundell Geothermal Plant**

In paragraph 3.d of the RMP Merger Settlement Agreement, PacifiCorp committed to undertake a study of the economic feasibility of an additional 25 MW expansion at the Bludell plant. This 25 MW expansion was in addition to the 11 MW expansion committed to by PacifiCorp in the Settlement Agreement (Paragraph 3.b.(V).(A)). PacifiCorp filed its report with the Commission on March 30, 2007. This study, conducted by GeothermEx, Inc. and Power Engineers, Inc., considered the capital cost of the technology to be used and the costs for the transmission capacity upgrades, taxes, allowance for funds used to during construction, and escalation. However, the production tax credit and green tags were not included in the study. The results of the study showed that the total cost for the 25 MW plant is \$5,538 per kW of which \$4,259 per kW were plant-only costs. Both of these costs are greater than the \$3,600 per kW not-to-exceed amount set forth in the Settlement. Therefore, the report recommends that the 25 MW expansion at Blundell not be pursued at this time.

However, the RMP's Quarterly Compliance filing of January 31, 2007 included an even greater expansion, 50 MW of Blundell. This 50 MW of thermal resources should be removed from the next inputs update, which is expected to be filed late this month.

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