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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: July 13, 2007

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

Recommendations

The Division recommends the Commission not acknowledge Rocky Mountain Power's Quarterly Compliance filing of May 7, 2007.

Discussion

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

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 May 7, 2007, RMP filed its Quarterly Compliance – Avoided Cost Input Changes. The proposed input changes consist of routine input changes and other input changes.

In an action request dated May 14, 2007, the Commission requested that the Division review these updates and report to the Commission by July 13, 2007. 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 March 2007. The Division believes this to be an appropriate change in the model.

Load Forecast (Retail and BPA South Idaho): For retail load forecast was updated using the 20-year 2007 IRP load forecast dated March 2007. After 2027, the retail load forecast was extended using average growth rate by bubble of the years 2018 to 2027. However, for the Clark load forecast for 2007, the October 2006 load forecast was used.

The Division is concerned about the use of the March 2007 load forecast. This forecast used a reduced growth rate for Utah and an increased growth rate for Wyoming. In the IRP process the Division raised concerns about the reduced growth rate in Utah, when the state economy is robust. The Company did not justify the reduction to the satisfaction of the Division. The Division does not think the impact of adopting the March 2007 load forecast on the coincident peak to be insignificant. Though the Company indicated that the avoided costs calculated using these updated inputs will not be used as indicative prices, the Division is concerned that this forecast will be used to develop indicative prices for new QFs that may come in the door. It is likely that this issue will be addressed in upcoming comments to Rocky Mountain Power's 2007 IRP and future IRP meetings.

Discount Rate: According to the Company, the Company routinely updates the official discount rate. The last time it was updated was December 2006. In this filing the Company used a discount rate of 7.3% which the current updated discount rate.

Other Updates

There are a number of other updates that are made to the inputs of the Proxy and the Proxy models. These updates include removal of Hunter 4 (575 MW – 2012) and 50 MW expansion of Blundale both noted in the January 2007 filing because they are no longer in the 10-year plan. To compensate for this reduction, Front Office Transactions were increased from 208 MW in June 2012 (noted in the January filing) to 833 MW in June 2012. Other input changes include, a partial displacement of the 1,300 MW of in wind in the expansion plan (by 2012) with 688 MW of wind with existing and potential wind QFs and renewable resources, a reduction in the avoided cost resource from 525 MW to 477 MW (340 MW (IPP-3) plus 527 MW (Bridger 5) less 390 MW of potential QF resource, three transmission upgrades, an update of hydro forecast (Swift 2 modeling), and an addition of Tesoro QF (CY2007), Weyerhaeuser Reserve (CY2007), Roseburg Forest Products CA and DSM Utah Irrigation.

The Division reviewed the reasonableness of the modifications to the Proxy and GRID models and their impacts on the avoided cost prices \$/MWh which is reported in the Company's filing as Appendix B. The Division concluded that all of the Company's proposed input updates are reasonable except the load forecast. Therefore, since the impact of the load forecast is not insignificant, the Division recommends the Commission not acknowledge the filing.

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