

## Appendix 2

### Rocky Mountain Power Response to the Utah Public Service Commission September 30, 2009 Order Docket No. 09-035-T14

In its September 30, 2009, Order in Docket 09-035-T14, the Commission directed the Company to provide additional information and clarification on five issues. Below are a description of and the Company's response to each issue:

#### a) – Load and Resource Balance

- a) Load and Resource Balance: The Company shall update Table 1 with complete information including winter peak conditions or provide an explanation of why a winter peak load and resource balance is no longer necessary for the determination of resource deficiency and sufficiency periods. The load and resource balance shall also be annotated with the planning reserve margin used in the calculation;

#### Company Response

Appendix 1 incorporates the updated Table 1, which includes the winter peaks and the planning reserve margins as requested in the Order. The L&R study has been updated consistent with the Commission's order to exclude the environmental adders.

In the current filing, the Company intended to provide the information that, in general, directly supported the determination of avoided costs. Based on the authorized methodology (Order dated June 1, 2004 in Docket No. 03-035-T10), the deficiency and sufficiency periods are determined by the energy calculation in the top portion of the table. Also consistent with the authorized methodology, the capacity payments are calculated for the number of months that the Company is capacity deficit during a given year, as shown in Table 3. As such, the summer and winter peaks do not provide information that is directly used in the study. The summer peaks are provided for

informational purposes and only because the Company's system is a summer-peak system.

The planning reserve margin was excluded from Table 1 in the Company's filing because the information was not used in the calculation of the avoided costs.

**b) – Total Avoided Energy Costs**

- b) Total Avoided Energy Costs: The Company shall explain the origin of and reason for using an energy weighted capacity factor in the calculation of the Capitalized Energy Costs and its effect on the calculation of avoided energy costs in its updated tariff filing. The Company shall also explain the origin of and the reason for using an on-peak capacity factor in the calculation of the Capacity Cost Allocated to On-Peak Hours and its effect on the calculation of on- and off-peak energy prices;

**Company Response**

Appendix 1 incorporates the updated Tables 3, 4 and 6, which reflect the 85 percent capacity factor as previously authorized by the Commission.

The capacity factors used in Table 8 are as listed in the Company's most recent IRP. The Company elected to use the IRP resource specific capacity factors to be consistent with its determination of avoided costs of the larger qualifying facilities using PDDRR methodology. The Company used IRP resource specific capacity factors in its 2006 filing (Tables 9 through 11 in the 2006 filing). However, the avoided costs in the current proceeding are not affected by the operation of proxy resources, for the calculations in Tables 3 through 6 the Company supports the use of an 85 percent capacity factor.

**c) – Variable O&M Costs**

- c) Variable O&M Costs: The Company shall provide information defining what is meant by each column of the Variable Costs columns used in the 2008 IRP; identify all of the costs which are included in the value for each column; indicate

which costs are appropriate to include in determining variable costs for the avoided cost calculation and why; and identify and explain changes to the Variable O&M Cost determination from the Docket No. 06-035-T06 and why the changes are appropriate and in the public interest. The Company shall recalculate Schedule No. 37 avoided costs based upon its recommendation. If the Company proposes to include a potential carbon tax in its environmental costs in the avoided cost calculation, it shall provide the supporting tables both with and without the carbon tax so that a comparison can be made. If the Company declines to include gas transportation costs in its avoided cost calculation it shall provide the supporting tables both with and without gas transportation included as a Variable O&M cost;

### **Company Response**

Appendix 1 incorporates the updated Tables 1 through 8, which include gas transportation and excludes the environmental adders.

In its initial filing, the Company inadvertently excluded the variable gas transportation based on an assumption that such cost was still part of the fuel costs in the price curve. These costs are now included and shown on Table 8.

In the IRP, the definition of variable O&M costs has not changed. The previous name of “Fuel/Other” has been changed to “Gas Transportation/Wind Integration” to be more explicit on what costs are listed in that column. These variable costs are to incorporate the incremental costs that are incurred to deliver gas to the burner-tips of the gas plants, and the non-fuel costs related to operating and maintaining the plants.

The environmental adders were to capture the impact of the marginal unit when the environmental adders are applied. That is, when the avoided cost unit displaces down one megawatt-hour of generation from the thermal unit, it not only saves the fuel costs but also the impact of the environmental adders on that one megawatt-hour of generation. The Company agrees that the prior Schedule 37 filing with the Commission did not

include carbon adders and also agrees that it is not appropriate to include them in the current filing and they have been removed.

**d) – Natural Gas Price**

- d) Natural Gas Prices: The Company shall provide additional information on how the gas price forecast is developed and provide prices assumed in years prior to 2014;

**Company Response**

Appendix 1 incorporates the updated Table 9, which shows prices before 2014.

The Company bases its forward price curves, both of natural gas and electricity, upon mid-point market price quotations, when available, or internal models, with internal and external fundamental data inputs. Market price quotations are obtained from independent brokers, commodity exchanges, direct communication with market participants, and/or actual transactions executed by the Company. Market price quotations for certain major electricity and natural gas trading hubs are generally readily obtainable for the forward six years. Beyond that, the Company uses forward price curves derived from internal models based on perceived pricing relationships to major trading hubs and internal and external fundamental data inputs.

The gas prices shown in Table 9 are the nominal average annual prices from the Company's official forward price curve dated June 30, 2009. The June 30, 2009 forward price curve is derived from forward market quotes (through July 2015), an average of market forwards and a long-term fundamentals price forecast (August 2015 through July 2016), and a long-term fundamentals-based price projection (August 2016 and beyond).

**e) – Wholesale Power Price**

- e) Wholesale Power Prices: The Company shall provide information on wholesale power prices as they relate to this docket and provide the wholesale power prices used in GRID during the period of sufficiency.”

**Company Response**

The GRID database that was provided to the DPU contains the wholesale power prices for all years, both during the sufficiency and the deficiency periods. The wholesale power prices are generated using the same process as described above for generating the prices for natural gas.