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MEMORANDUM

To: Public Service Commission

From: Division of Public Utilities
Phil Powlick, Director
Artie Powell, Energy Manager
Jamie Dalton, Utility Analyst II
Charles Peterson, Technical Consultant
Abdinasir Abdulle, Technical Consultant

Date: November 4, 2009

Subject: Docket No. 09-035-T14, Schedule 37: Avoided Cost Purchases
from Qualifying Facilities

RECOMMENDATION

The Division recommends that the Public Service Commission (Commission) approve Rocky Mountain Power's refiled updates of Electric Service Schedule 37 – Avoided Cost Purchases From Qualifying Facilities – as complying with the Commission Order dated September 30, 2009.

ISSUE

On August 4, 2009 Rocky Mountain Power (“Company”) filed updated avoided costs for Electric Service Schedule No. 37. This schedule provides the standard avoided cost rates for purchases from qualifying facilities (“QFs”) under one megawatt in size and to compensate net metering customers. On August 4, 2008, the Commission issued an Action Request to the

Division requesting a response by August 27, 2009, which was later extended to September 3, 2009. On September 3, 2009, the Division filed its comments recommending adoption of the proposed changes. On September 30, the Commission issued its Order rejecting the proposed updates and directing the Company to refile the updates with certain modifications. On October 21, 2009, the Company refiled its updates to this Schedule with the modifications outlined in the Commission's Order. This memo provides the Utah Division of Public Utilities' ("Division") comments and recommendations of this filing.

DISCUSSION

On September 30, 2009, the Commission issued an Order rejecting the Company's updated calculation of the avoided costs for Electric Service Schedule 37. In this Order, the Commission directed the Company to refile the Schedule 37 rate sheets with the following adjustments.

- 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;

The Division has reviewed the Company's filing and found that the Company has appropriately included the winter peaks and the planning reserve margins in Table 1.

- 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.

In the current filing the Company has changed the capacity factor from the 51.5 percent it used in its August 4, 2009 filing to 85 percent which is consistent with the capacity factor for the blended resource used in Docket No. 06-035-T10.

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;

As is shown in Table 8 of the current filing, the Company has included the variable transportation cost, which was inadvertently excluded from the previous filing. In addition the Company has indicated in the current filing that the variable O&M costs have not changed in the IRP except that the variable Fuel/Other has been changed to Gas Transportation/Wind

Integration. This change was made to make it explicit what costs are listed in that column. The Division believes that these changes adequately address the Commission requirement of variable O&M costs.

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

In reviewing the current filing, the Division noted that Table 9 of the current filing includes gas prices for the years prior to 2014. In addition, the Company has indicated in its current filing that

the prices shown in Table 9 are the nominal average annual prices from the Company's official forward price dated June 30, 2009. The June 30, 2009 forward price curve is derived from forward market quotes (through August 2015), an average of the 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).

The Division reviewed this information and concluded that it is appropriate.

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.

The Division has determined that the wholesale power prices for all years, both the sufficiency and deficiency periods, are contained in the GRID model as the Company claims.

The Division concludes that the Company's current filing is in compliance with the Commission Order of September 30, 2009. Therefore, the Division recommends that the Commission approve the Company's current filing of Schedule 37 updates.

CC: Rea Petersen, DPU
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