Rocky Mountain Power
Exhibit UIEC-_____ (DEP-SR4)
Docket No. 10-035-124
Witness: Dennis E. Peseau

IN THE NEWS

N.Y. orders Iberdrola to try to sell plants again

New York regulators Thursday directed Iberdrola to try again to sell various power plants that failed to attract floor bid prices last year, this time by breaking up the package into three offerings.

The state Public Service Commission had ordered Iberdrola to sell off the plants in 2008 when it approved the company's acquisition of Energy East, which included two New York utilities, New York State Electric & Gas and Rochester Gas and Electric. The commission required as a condition of approval that Iberdrola divest the utilities' generating plants.

The package includes two gas-fired combined-cycle plants: RG&E's 62-MW Allegany plant, and the 63-MW Cayuga Energy Carthage station. Two peakers also are up for sale: RG&E's stations 3 and 9, each 18 MW. The final site houses the retired Russell coal-fired plant in Monroe County.

Iberdrola initially offered the plants under a divestiture plan approved by the commission, which included a floor price on the assets. The floor price was the book value of the assets plus estimated transaction costs and taxes, according to utility filings before the commission.

The company initiated the auction in April 2010, marketing the plants to 265 companies that it identified as potential buyers. The auction attracted no conforming bids and one non-conforming bid that came in late. That bid failed to include offers for the Russell coal-fired plant or for the peakers. And the offer was substantially lower than required for the two combined-cycle plants, according to a commission filing.

The plants failed to sell, according to RG&E, not because the divestiture plan was flawed but because the market for power plants is weak and the assets are not attractive.

The utility said that the operating plants are dispatched infrequently, the peakers are at the end of their useful lives, and the Russell site has environmental conditions that must be monitored.

RG&E recommended termination of the auction in December, arguing that continuing to try to sell the plants would cost ratepayers money. The utility also expressed concern that there would be no buyers willing to pay for remediation of the dormant coal-fired plant.

The commissioners, however, said they believe that a reconfigured package might sell. So the commission ordered Iberdrola to offer the power plants again, this time in three packages. The first package will contain the two combined-cycle facilities, the second RG&E's peaking turbine, and the third the retired coal-fired plant.

At the same time, the commission acknowledged that it may be difficult for Iberdrola to sell the retired coal-fired plant for some time. So it ordered RG&E to proceed with demolition and environmental remediation at the site.

Daniel Hucko, Iberdrola spokesman, said he could not comment on the decision because the commission has yet to issue a written order that the company can review.

— Lisa Wood

Storage again defies analysts' expectations

Defying expectations yet again, the Energy Information Administration on Thursday reported an 84-Bcf build to storage inventories for the week ending July 8, raising stocks to 2.611 Tcf.

The build was above analysts' consensus projection of 77 to 81 Bcf and was higher than last year's 78-Bcf addition. But it was below the five-year average of 88 Bcf.

"The last three weeks, the analysts have been way off," said Phil Flynn, an analyst with PFGBest. "It's been harder to get this number in line with expectations."

The report immediately sent the NYMEX August gas contract plummeting, though it gained nearly all of its losses by day's end.

In the same week last year, EIA reported 2.829 Tcf in storage. As a result, the 224-Bcf deficit to the year-ago level shrank to 218 Bcf, while the 48-Bcf deficit to the five-year average of 2.663 Tcf expanded to 52 Bcf.

"Loose supply/demand balance anyone?" Gelber & Associates analyst Pax Saunders asked in a note regarding the storage injection.

Saunders made particular note of the 1-Tcf milestone in the producing region — which he said broke last year's record for the earliest arrival of that level — and the "healthy" 59-Bcf fill in the East.

Even more significant is the "shave-off of storage lag to 2010 from 224 Bcf to only 218 Bcf," he said. "Once we get past weather conditions, this could really begin to shrink."

Tim Evans, an analyst with Citi Futures Perspective, said recent storage reports show just how much US gas production has increased.

"The second consecutive larger-than-expected build in US natural gas storage reinforces the idea that US natural gas production has grown sufficiently to translate above normal temperatures into a near-average build in storage," Evans said. "We're still looking at a modest flow of below-average storage injections, but it is a weaker supportive trend than expected and warns that the market will be more vulnerable on the downside should temperatures moderate."

According to EIA, inventories now are 116 Bcf below the five-year average of 1.364 Tcf in the East, 36 Bcf below the five-year average of 398 Bcf in the West, and 100 Bcf above the five-year average of 901 Bcf in the producing region.

— Stephanie Seay

Developer seeks all Wyo.-Colo. line's capacity

A renewable power developer is seeking to buy all the capacity on a proposed 345-kV line that would run between Colorado and Wyoming, the LS Power subsidiary developing the power line said Thursday.

The 900-MW Wyoming-Colorado Intertie line was proposed in early 2008 with an eye toward delivering wind generation from Wyoming to Colorado's utilities. So far, Xcel Energy,

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Colorado's largest utility, has found in-state wind options to be cheaper than buying power from Wyoming, leaving the proposed line in limbo.

The offer from the renewable developer in Wyoming triggers a 30-day period for other entities to propose taking capacity on the line, Adam Gassaway, LS Power project manager, said Thursday. If other offers are made that at least meet the pending proposal, LS Power will hire an independent monitor that will hold an auction for capacity on the line, he said. LS Power declined to name the developer seeking the capacity on the line.

The Wyoming-Colorado Intertie project is slated to run about 180 miles from the Laramie River Station in Wheatland, Wyoming, to a substation near Brush, Colorado.

In 2008, Duke Energy and GreenHunter Wind were awarded 585 MW of capacity on the WCI line, which was slated to begin operating by early 2014. But the developers canceled the capacity contracts after they failed to win power purchase agreements in a 2009 Xcel request for proposals for wind generation. As a result of the RFP, Xcel entered into contracts for 700 MW of wind to be built in Colorado, finding that in-state wind generation was less expensive than wind offers from Wyoming.

Xcel's upcoming renewable needs will be unveiled in late October when it files an integrated resource plan with the Colorado Public Utilities Commission. It is unclear how much renewable energy Xcel will need. Including projects that are under contract but not yet built. Xcel already meets its final utility-scale requirements for the state's 30%-by-2020 renewable portfolio standard. Xcel officials have said that the utility expects to surpass the 30% requirement.

Xcel will have about 1,900 MW of wind generation on its Colorado system by the end of 2012, according to Gabriel Romero, utility spokesman. Earlier this year, Xcel signed a 25-year contract to buy power from a 200-MW wind farm proposed by NextEra Energy Resources. Power from the wind farm would cost about $35/MWh over the life of the contract, making it a least-cost option, Romero said.

After Duke and GreenHunter failed to win contracts from Xcel, LS Power, which is developing the intertie project with the Wyoming Infrastructure Authority, took a hard look at the proposed line to see if it was viable, Gassaway said. The company hired a consultant and determined that the project was fundamentally sound, he said. LS Power believes that wind power from Wyoming, which has higher average capacity factors than Colorado, is generally less expensive than wind from Colorado. Partly, LS Power believes Xcel did not adequately consider the general benefits of increasing transmission capacity between Wyoming and Colorado when considering the Wyoming wind proposals, Gassaway said.

The NextEra contract grew out of a 200-MW rebid of the 2009 RFP late last year. Xcel received offers totaling about 6,000 MW, with the least expensive offers coming from inside Colorado, according to a report Xcel filed with the PUC.

In Xcel's next search for wind power, proposals from Colorado will likely need new transmission, putting Wyoming offers on a more competitive footing with Colorado-based proposals, Gassaway said.

LS Power is developing several other transmission projects, but some have been slowed by market uncertainty around California's RPS requirements, Gassaway said. California has a 33%-by-2020 RPS, but some of the rules about project eligibility are still being developed. In general, the state is giving a preference to in-state resources and it is unclear exactly how much out-of-state generation can be used to meet the renewable standard.

LS Power and NV Energy are building a 500-kV line that would link northern and southern Nevada for the first time. LS Power plans to extend the line to the north into Idaho and to the south where it could link up with California and other states. The company has all the permits needed to build the northern segment of the line, but needs to have capacity agreements in place before construction can start, Gassaway said.

Information about seeking capacity on the WCI project is online at: www.wcintertie.com.

— Ethan Howland

Industry protests Corker cost allocation bill

A Senate bill intended to ensure that only those benefitting from new transmission lines would pay for them will thwart transmission development and negatively affect reliability and competition if passed into law, a broad coalition of utilities, industry groups, transmission developers and renewable energy interests told Senate leaders Thursday.

The coalition of around 80 groups wrote Senate Majority Leader Harry Reid, Democrat from Nevada, and Minority Leader Mitch McConnell, Kentucky Republican, urging they not support the bill introduced in February by Senator Bob Corker, a Tennessee Republican. Corker's bill, S. 400, is similar to an amendment he successfully added to the Senate energy bill in the 111th Congress that never came before the full Senate.

Senate co-sponsors of S. 400 include Lisa Murkowski, Alaska Republican; Ron Wyden, Oregon Democrat; Lindsey Graham, South Carolina Republican; Saxby Chambliss, Georgia Republican; Richard Burr, North Carolina Republican, Johnny Isakson, Georgia Republican; and Mike Lee, Utah Republican. The bill has been referred to the Senate Committee on Energy and Natural Resources.

The bill would amend the Federal Power Act to deny any rate or charge for transmission contained in any filing made or proceeding initiated after June 17, 2010, from being considered just and reasonable unless it is based upon an allocation of costs for new transmission facilities that is deemed reasonably proportionate to "measurable economic or reliability benefits projected," as determined by the Federal Energy Regulatory Commission.

"S. 400 adopts an unreasonable benefit standard that will have the practical effect of thwarting the construction of trans-