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Division of Public Utilities

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MEMORANDUM

To: Utah Public Service Commission

From: Utah Division of Public Utilities
Philip Powlick, Director
Energy Section
Artie Powell, Manager
Abdinasir Abdulle, Technical Consultant
Charles Peterson, Technical Consultant

Date: June 29, 2010

Ref: Docket No. 10-035-T07. Schedule 37 - Avoided Cost Purchases from Qualifying Facilities.

RECOMMENDATIONS

The Division recommends that the Commission direct the Company to either redo the avoided cost calculations or verify that the discount rate and the payment factors used in the filing are correct. If the discount rate and the Payment factors are correct, then the Division recommends that the Commission approve the filing.

ISSUE

In compliance with the Commission's February 12, 2009 order, in Docket No. 08-05-78 on Net Meting, Rocky Mountain Power (Company) filed an update of the avoided cost pricing in Schedule 37 on June 7, 2010. On June 9, 2010, the Commission issued an Action Request to the Division requesting response by June 29, 2010. This memorandum is the Division's response to this Action Request. The Company requested an effective date of July 6, 2010.

BACKGROUND AND DISCUSSION

In its order, dated February 12, 2009, in Docket No. 08-05-78 on Net Meting, the Commission directed Rocky Mountain Power (RMP or Company) to update the avoided cost pricing in Schedule No. 37 annually, concurrent with the approval and establishment of rates for larger commercial and industrial customers based on the FERC Form No. 1 method. In compliance with this order, the Company filed its updated avoided cost pricing for Schedule 37 on June 7, 2010. The filing contains First Revisions of Sheets No. 37.3 and 37.4 with updated prices and support calculations.

The Division reviewed the filing and checked the calculations in Appendix 1 and the assumptions associated with it accuracy and reasonableness. The Division has two concerns as discussed below. For this revision to Schedule 37, except as noted, the Company utilized data from its 2008 IRP Update, which data was fixed in November 2009.

Routine Input Changes

Load Forecast (Retail and BPA South Idaho): The Company's Load Forecast was updated to include the 2008 IRP Update and revisions to the long term contracts, which included power purchase agreements with Cargill, NV Energy, Southern California Edison, Pacific Gas and electric, and Shell. The Division believes that it is reasonable to update the load forecast with such additions and revisions.

Discount Rate: According to the Company, the Company routinely updates the official discount rate. In this filing the Company used a discount rate of 7.17% which is the Company's March 2010 Official Discount Rate. This discount rate is different than that used in the 2008 IRP, which is 7.4%. The Division is concerned about this apparent inconsistence and would recommend that the Commission direct the Company to verify that the discount rate is correct and consistent with the 2008 IRP Update or redo the calculations.

Other Updates

There are a number of other updates that are made to the inputs of the Proxy resource and the Proxy models. These updates include using a combined cycle combustion turbine (a 607 MW CCCT (Wet “F” 2x1)) as the proxy resource.

A discussion of on the use of the capacity factor to allocate the avoided capital cost is included in this filing as was required by the Commission in its Order in Docket No. 09-035-T14. In this filing the capacity factor of the proxy resource is 50.5% and the on-peak capacity factor is 88.6% (50.5% / 57% on-peak hours). The filing also provides a discussion regarding existing environmental cost as was required by the Commission in its Order in Docket No. 09-035-T14.

The Division notes that the Company is using one payment factor for both the combined cycle and the simple cycle (8.26%). This is different than what is reported in Table 6.4 of the 2008 IRP where there are different payment factors for the combined cycle (8.59) and the simple cycle (8.62). On e would expect that since the two resources have different lives that the payment factors would be different. The Division is concerned about this. Therefore, the Division recommends that the Company redo the calculations with the appropriate factors or verify their validity as used in the revisions of Schedule 37.

Except as noted herein, the Division believes that the updates to the inputs of the avoided cost calculation are reasonable and the avoided cost prices are calculated according to the Commission approved methodology. Given the concerns raised herein, the Division recommends that the Commission direct the Company to either verify the validity of the payment factors and discount rate or redo the avoided costs with the correct values.

CC: Rea Petersen, DPU
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