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To: The Public Service Commission of Utah

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Date: January 14, 2013

Subject: Office of Consumer Services Comments Regarding PacifiCorp's Decision to Terminate All Source RFP for 2016 Resource. Docket No. 11-035-73

Background

On October 5, 2011 Rocky Mountain Power (Company) filed an application with the Public Service Commission (Commission) requesting approval of a solicitation process to acquire an all-source resource for 2016 (2016 RFP). The Commission approved the 2016 RFP on February 8, 2012. Following the evaluation of bids from the 2016 RFP, on September 28, 2012 Rocky Mountain Power filed a notice of termination of the RFP for 2016 Resource with the Commission.

Discussion

1. Company Rationale for Decision

The 2011 Integrated Resource Plan (IRP) indicated a projected resource deficiency¹ of approximately 600 MW in the 2016 time period. In order to fill that need the Company initiated the 2016 RFP. In explaining its rationale for canceling the 2016 RFP the Company explains that in the process of evaluating the bids it "completed a Needs Assessment, which reflects an updated lower load forecast and updated load and

¹ The 2008 IRP also indicated a need for a significant energy resource.

resource balance”.² This new Needs Assessment showed a reduction of 468 MW in the projected 2016 load as compared to the 2011 IRP Update. The Company further states that system peak loads are lower by 523 MW in 2016. Under this analysis a new large thermal resource is not needed until 2025.

The Company describes the analysis it conducted to ascertain the benefit to customers of pursuing resources from the 2016 RFP. From its analysis the Company determined that pursuit of bid resources would result in customers incurring near-term costs with only speculative long-term cost savings beginning in 2020. Thus, the Company concluded that pursuing a large resource at this time is not in the best interest of customers.

In the September 28, 2012 notice to the Commission that it was canceling the 2016 RFP the Company notes that the analysis using the System Optimizer model with updated load and resource information indicated that the “2016 resource need can be most economically met with front office transactions, primarily in the west side of the Company’s system, and acquisition of Class 2 demand side management (DSM) resources throughout the Company’s service territory.”

Attachment 2 of the September 28, 2012 notice is the November 2011 WECC Power Supply Assessment provided as support for the Company’s decision to rely on firm market purchases on the west side of the system to meet summer peak requirements. As further support the Company states that indications from responses received from two market requests for proposals are that lower cost summer resources are available in the east from 2014 through 2017 than resource bids received in the 2016 RFP. The Company asserts it will also continue to pursue low cost resource alternatives through market requests for proposals and/or bilateral commercial contracts.

Office Response

In IRP comments and other forums the Office has expressed its concerns regarding the Company’s reliance on market power.

The Office remains concerned with the Company’s reliance on front office transactions in the long term. However, the Office is satisfied with the Company’s explanation in this case and believes that the IRP, not an RFP, is the appropriate place to determine if the Company’s reliance on the market is reasonable.

2. Independent Evaluators Final Report

On November 30, 2012 the Final Report of the Utah Independent Evaluator was filed. In the overall conclusions the Independent Evaluator provides the following:

“The IE does not oppose PacifiCorp’s decision to not select a resource from the All Source RFP for 2016 Resource and to terminate the

² Page 2 of Rocky Mountain Power’s Support for Decision to Terminate All Source RFP for 2016 Resource, December 10, 2012.

2016 All Source RFP at this time based on the projected significant decline in the Company's load forecast, and projected resource balance for 2016. Certainly, the Company has clearly demonstrated that there is no need for the originally anticipated 600 MW gas-fired combined cycle as the incremental resource identified in the 2011 IRP. The analysis indicates that the need for the next large-scale combined cycle resource addition has been deferred until 2025. Furthermore, "forcing" a new combined cycle resource into the supply plan would cost customers over [begin confidential] [REDACTED] [end confidential] million over the life of the project relative to a preferred resource plan. Such a decision would not lead to the lowest reasonable cost to retail customers and would not be in the public interest."

The IE also notes that through sensitivity analysis related to two resources selected in the Step 2 evaluation the Company concluded that the benefits associated with those bids are related to deferral of DSM resources, long-term future combined cycle resources and reduction in front office transactions. The Company sensitivity analysis confirm that the selection of the bids was not due to a resource need in 2016.

Office Response

The Office has not conducted an independent analysis of the Company's load forecast projections to determine whether or not the Company's analysis was appropriate. However, based on the Independent Evaluator's conclusions and our review of documents provided with the notice of cancelation the Office concludes that the Company's decision to terminate the 2016 RFP is appropriate at this time.

Based on the sensitivity analysis noted above the Office asserts that further analysis should be conducted in the IRP to determine if DSM resources are being appropriately valued.