



State of Utah  
Department of Commerce  
Division of Public Utilities

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## ACTION REQUEST RESPONSE

To: Public Service Commission

From: Division of Public Utilities  
Chris Parker, Director  
Artie Powell, Manager  
Sam Liu, Utility Analyst  
Charles Peterson, Technical Consultant

Date: July 28, 2011

Ref: Docket No. 10-035-T06. Schedule 37 - Avoided Cost Purchases from Qualifying Facilities.

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### RECOMMENDATIONS (Approve with condition)

The Division of Public Utilities (Division) recommends that the Commission approve the changes to Schedule 37 contained in the filing by Rocky Mountain Power (Company). Additionally, the Division recommends that the Commission direct the Company to use the discount rate used in the Company's most recent Integrated Resource Plan (IRP) or IRP Update in future updates to Schedule 37.

### ISSUE

In compliance with the Commission's February 12, 2009 order, in Docket No. 08-035-78 on Net Metering, Rocky Mountain Power (Company) filed an update of the avoided cost pricing in Schedule 37 on June 28, 2011. On June 30, 2011, the Commission issued an Action Request to

the Division requesting response by July 21, 2011. The Division requested an extension of the due date to July 28, 2011. This memorandum is the Division's response to this Action Request.

## **BACKGROUND AND DISCUSSION**

In its order, dated February 12, 2009, in Docket No. 08-035-78 on Net Metering, the Commission directed the Company to annually update the avoided cost pricing in Schedule No. 37, 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 28, 2011. The filing contains Third Revisions of Sheets Nos. 37.3 and 37.4 with updated prices along with two appendices containing supporting exhibits and explanations.

The Division reviewed the filing and checked the accuracy and reasonableness of the calculations in Appendix 1. The Division has two concerns as discussed below. For this revision to Schedule 37, except as noted, the Company utilized data from its 2011 IRP. The 2011 IRP data were fixed by December 2010.

### **Input Changes**

***Load and Resource:*** The Company's Load Forecast was updated to include the 2011 IRP and revisions to the long-term contracts that occurred through early June 2011, which included power purchase agreements with Kennecott Refinery QF, Nevada Energy, and Threemile Canyon Wind QF.<sup>1</sup> 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 applied its routinely updated "official discount rate." In this filing the Company used a discount rate of 7.15 percent, which is the

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<sup>1</sup> For completeness the Company also includes a recent extension of the contract for the use of the Clay Basin Gas Storage facility. This contract extension, while constituting a "change" from the previous Schedule 37 avoided cost update; it has no net effect on the avoided cost calculations.

Company's March 2011 "official discount rate." This discount rate is slightly different from the discount rate used in the 2011 IRP, which is 7.17 percent. The issue of possibly inconsistent discount rates was raised last year in Docket No. 10-035-T07. In the 2010 docket, the Division recommended that the Company redo the calculations reflecting the IRP discount rate. The Division is concerned about the inconsistent use of an "official discount rate" to calculate levelized prices and the use of 2011 IRP discount rate to calculate the payment factors set forth on Table 8. Company representatives indicated to the Division that they would rather change the discount rate used to calculate the levelized pricing, rather than change the discount rate in the calculation of the payment factors that would necessitate additional changes to the calculations. To maintain reasonable consistency between the various calculations, the Division concludes that the discount rate used in the Schedule 37 factors should consistently be the one from the latest IRP or IRP Update.

In the current docket the difference between the March 2011 "official discount rate" and the 2011 IRP discount rate is negligible and results in no difference within the range of rounding error. Therefore, the Division recommends that the Company need not file updated pricing based upon a different discount rate. However, in future years, this difference may not be negligible. The Division recommends that the Commission order the Company to consistently use the latest IRP or IRP Update discount rates in future revisions to Schedule 37.

***Other Changes:*** The Company has updated the forward price curve for natural gas to reflect the March 2011 forward prices. The 2011 IRP forward price curve was from November 2010. Likewise the Company updated its load forecast from the November 2010 IRP forecast to the latest June 2011 forecast. The Division believes that updating the forward price curve and the long-term load forecast is appropriate.

The Company uses the cost estimates from two deferrable gas-fired 2011 IRP resources: (1) a single cycle combustion turbine (SCCT), 2 Frame "F," that is assumed to be available by 2014, located in Utah with an assumed capacity of 362 megawatts; and (2) a combined cycle

combustion turbine (CCCT), Dry “F” 2x1 with duct firing, East Side resource assumed to be available in 2015 with an assumed total capacity of 597 megawatts.<sup>2</sup> The Division believes these are appropriate deferrable resource proxies.

Despite a somewhat confusing discussion on page 2 of Appendix 2 that the Commission requested that the Company explicitly include its planning reserve margin assumption on Table 1 in Appendix 1, the Company does not provide the planning reserve margin percentage on Table 1 or in its discussion in Appendix 2, or show how it entered into the calculations on Table 1. The Division questioned the Company about this apparent oversight. The Company’s response is that while the application of a planning reserve margin is relevant to the IRP process,<sup>3</sup> it makes no sense in the avoided cost calculations since the Company does not add resources here in order to meet a planning reserve margin. The intent of the avoided cost calculations is to arrive at a reasonable estimate of the cost savings to the Company based upon the addition of a small qualifying facility; it is not intended for complete long-term system planning. With regard to the Company’s Appendix 2, as the Division understands it, the Company’s statement at the end of the last full paragraph of page 2 of Appendix 2 of the filing is not correct. What the Division believes the intended meaning of the statement to be was that the margin, or deficit, to be covered in the avoided cost calculation is represented on Table 1 by the “Surplus/(Deficit)” calculations, which have little to do with the planning reserve margin as applied in an IRP context. Based upon this explanation, the Division agrees with the Company that the IRP planning reserve margin is not meaningful in this context and consequently recommends no changes to the Company’s filing.

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. The discount rate issue discussed above has no practical effect on this year’s filing, but may be significant in future years. Therefore, the Division recommends that the Commission approve the

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<sup>2</sup> See 2011 IRP, Tables 6.1 and 6.3.

<sup>3</sup> In the 2011 IRP, the Company has increased its planning reserve margin to 13 percent from the previous 12 percent.

changes to Schedule 37 as filed by the Company, but order the Company to consistently use the discount rate from the most recent IRP or IRP Update in future updates to Schedule 37.

CC:

Dave Taylor, Rocky Mountain Power

Michele Beck, Office of Consumer Services