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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
Thomas Brill, Technical Consultant
Charles Peterson, Technical Consultant
Sam Liu, Utility Analyst

Date: December 7, 2011

Ref: Docket No. 11-035-T06. Schedule 37 - Avoided Cost Purchases from Qualifying Facilities.

RECOMMENDATION (Approval)

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).

ISSUE

In compliance with the Commission's October 31, 2011 Order requesting Additional Information in Docket No. 11-035-T06, Rocky Mountain Power (Company) filed an update of the avoided cost pricing in Schedule 37 on November 14, 2011, along with responses to the Commission's information requests. On November 16, 2011, the Commission issued an Action Request to the Division requesting response by December 7, 2011. This memorandum is the Division's response to the 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 Division responded to this filing on July 28, 2011, recommending approval of the application. The Division evaluated the Company's filed changes which included updates to (a) the load forecast with additions and revisions, (b) the discount rate, and (c) the forward price curve and long-term load forecast. In its July 28th response, the Division noted that the discount rate was slightly different from that used in the Company's IRP. However, the Division concluded that the discount rate issue was not material in this current filing, but should be consistent with the most current IRP in future avoided cost filings.

On October 31, 2011, the Commission issued an Order Requesting Additional Information in Docket No. 11-035-T06. In response to the Commission's Order, the Company filed supplementary information regarding its application of the Commission Approved Methodology to calculate Schedule No. 37 avoided cost rates on November 14, 2011. The filing contains P.S.C.U No. 48 First Revision of Sheets Nos. 37.3 and 37.4 with corrected prices for 2011 along and two appendices containing supporting exhibits and explanations.

The Division reviewed the additional filing and checked the accuracy and reasonableness of the calculations in the Company's Attachment. The Division comments on the Company's responses 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.

***Provide a direct link between the load and resource plan in the 2011 IRP and the period of resource deficiency identified in the Schedule 37 avoided cost rates*:** The Division understands that the Commission-approved Schedule No. 37 avoided cost methodology also requires the calculation of a load and resource (L&R) balance that includes both an annual energy balance and a capacity balance. The annual energy L&R balance is used to determine the periods of resource sufficiency and deficiency;[1] the capacity L&R balance is calculated monthly to determine a basis for the short-run capacity payment.[2]Shown in its response to the Commission's questions, the Company computes both of these L&R balances using information generated by its GRID model. In the 2011 IRP, the Company based its resource need analysis and preferred portfolio selection on a summer capacity L&R. The only reference in the 2011 IRP to a system-wide energy balance was Figure 5.6, Volume I, page 105. In Docket No. 03-035-T10, the June 1, 2004 Commission Order acknowledged that the energy L&R balance calculations in the Schedule No. 37 methodology can result in a difference from the IRP. The main driver behind this difference is the difference in the commitment or dispatch of the natural gas-fired plants. In the 2011 IRP energy production was based on the full capability of the gas plants after adjusting for planned and unplanned outages; the annual energy usage of natural gas-fired plants in the Commission approved Schedule No. 37 methodology is based on the hourly level at which the GRID model commits them.

The Company provides a detailed presentation of the resource deficiency data in Confidential Attachment C as a response to the Commission's information request. The Division believes that this information adequately addresses the Commission's request.

***Explain the basis for including or excluding planning reserve in the calculating of short-run avoided energy cost*:** The reserve margin is measured as the sum of the Company's obligations (load plus sales) plus reserves. For capacity expansion planning, the Company selected a 13

[1] *See* Docket No. 94-2035-03, Prefiled Direct Testimony of Rodger Weaver, pages 10-11.
[2] *See* Docket No. 03-035-T10, Commission Order, June 1, 2004, page 16. The Commission modified the Schedule No. 37 avoided cost methodology to base capacity payments during years of energy sufficiency on the number of months that the Company projected to be capacity deficient. Previously, a three month capacity payment was included if the Company was capacity deficit at the summer peak.

percent target planning reserve margin for the 2011 IRP.[3] PacifiCorp, as part of the Western Electricity Coordinating Council (WECC), is currently required to maintain at least 5 percent and 7 percent operating reserve margins on hydro/wind and thermal load-serving resources, respectively. The IRP employs planning reserves to meet operating reserves, regulating reserves, load forecast errors, and other planning uncertainties. The 13 percent planning reserve margin is supported by a stochastic loss of load probability study conducted in late 2010.[4]

The Company states in its supplemental response that avoided cost calculations include planning reserves in the calculation of short-run avoided energy cost for Schedule No. 37. The Company maintains that the included planning reserves is consistent with the Company's IRP methodology, and that the included planning reserve adequately takes into consideration not only the reliability requirements promulgated by WECC, but also load forecast errors and other planning uncertainties. The Company explains its GRID model clearly includes operating reserves, regulating margins, and thermal derates in an amount that is consistent with its planning reserves. The Company explains that its GRID model derates the available resources by amounts equivalent to the IRP planning reserve percentage. GRID calculated operating reserves, regulating margins, and thermal derates that amounted to 1,311 MW (which has been confirmed by DPU's data request), or 12.8 percent of system obligation, is approximately equal to the 13.0 percent planning reserve margin included in the 2011 IRP.

Based on this explanation, the Division believes that the Company has adequately accounted for reserve margins in its Schedule No. 37 avoided cost calculations.

Respond to whether peak and off-peak avoided energy costs during the period of resource sufficiency are correctly valued and correct these values as necessary: The Company provides short-run capacity payments based on the number of months in the year in which it is capacity deficient from 2011 to 2014. The Company calculates these monthly capacity payments from the estimated capital cost and fixed and variable operation and maintenance costs of an SCCT from

[3] PacifiCorp - 2011 IRP, Volume I, page 99
[4] PacifiCorp - 2011 IRP, Volume II, Appendix J – Stochastic Loss of Load Study, page 255.

its 2011 IRP. The Company proposes payments based on 3, 7, 7, and 7 months of capacity deficit during the years 2011 to 2014, respectively. The Company uses a three month capacity deficit in 2011. The current method takes the cost of a SCCT and then applies 3/12s (for 2011; 7/12s for the other years) of capacity cost of this resource to calculate avoided capacity costs.

On July 28, 2011, Utah Clean Energy and Western Resource Advocates (UCE/WRA) filed joint comments on the Company's Schedule 37 proposal, and noted a large difference between the SCCT fixed costs in 2011 and the years 2012 through 2014. UCE/WRA suggested this was possibly because 2011 begins with July and therefore only three of seven capacity constrained months were included in the calculation of avoided capacity cost. Responding to this issue, the Company provided monthly information regarding capacity deficits for all years. The Commission directed the Company to respond to this issue. The Company discovered an error in its calculations for 2011 and has corrected the 2011 calculations in its supplementary filing. The Division reviewed and checked the Company's filing in Table 6 (On- & Off-Peak Energy Prices), and the calculation of Capacity Cost Allocated to On-Peak Hours. For the partial year of 2011, capacity is allocated across 4,416 hours which replaces the 8,760 hours previously used, thereby correcting the capacity costs. The fixed cost increases from $6.68 previous filing to $13.24 in year 2011.

Provide information regarding capacity deficits for all years during the resource sufficiency period: The Division has reviewed each table inside of the Confidential Attachment C. And it appears that the data provided back up and support the Company's Load and Resource balance table. The Division has not audited or otherwise verified the accuracy of the supporting data.

Discussion of reserve margins in prior cases: In the Commission's October 31, 2011 Order Requesting Additional Information, the Commission also directed the Division to examine the record and provide comment on whether planning reserve is included or excluded in the short-run avoided energy cost calculation. As of the date of this memorandum, the Division, like the

Commission,[5] has so far not found any discussion related to reserve margins. The Division will file a separate memo when it completes its investigation.

CONCLUSION

The Division believes that the corrected avoided cost calculations are reasonable and the avoided cost prices are calculated according to the Commission approved methodology. The Company appears to have adequately responded to the Commission's information requests.

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 changes to Schedule 37 as filed by the Company.

CC:
Dave Taylor, Rocky Mountain Power
Michele Beck, Office of Consumer Services

[5] Commission Order, Docket No. 11-035-T06, October 31, 2011, page 8: "We have reviewed relevant dockets and have not yet found discussion of whether planning reserve is included or excluded in the short-run avoided energy cost calculation."