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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Application of Rocky Mountain Power for Approval of Changes to Renewable Avoided Cost Methodology for Qualifying Facilities Projects Larger than Three Megawatts	DOCKET NO. 12-035-_____ **REQUEST FOR APPROVAL OF CHANGES TO RENEWABLE AVOIDED COST METHODOLOGY AND MOTION TO STAY AGENCY ACTION**

Pursuant to Utah Code Ann. § 63G-4-201, 204 and Utah Admin. Code R746-100-3, Rocky Mountain Power ("Rocky Mountain Power" or "Company") respectfully requests that the Public Service Commission of Utah ("Commission") approve certain changes to the currently effective avoided cost pricing for large renewable qualifying facilities ("QF"), approved by the Commission October 31, 2005 in Docket No. 03-035-14 ("2005 Order"), and reaffirmed by the Commission September 20, 2012 in Docket No. 12-2557-01 ("2012 Order"). In addition, the Company requests that the Commission immediately stay the application of the 2005 Order to requests for indicative pricing with regard to wind QFs in excess of three (3) megawatts pending conclusion of this docket.

In support of its request, Rocky Mountain Power states as follows:

1. Rocky Mountain Power is a division of PacifiCorp. PacifiCorp is an Oregon corporation that provides electric service to retail customers through its Rocky Mountain Power division in the states of Utah, Wyoming, and Idaho, and through its Pacific Power division in the states of Oregon, California, and Washington.

2. Rocky Mountain Power is a public utility in the state of Utah and is subject to the Commission's jurisdiction with respect to its prices and terms of electric service to retail customers in Utah. The Company serves approximately 830,000 customers and has approximately 2,400 employees in Utah. Rocky Mountain Power's principal place of business in Utah is 201 South Main Street, Suite 2300, Salt Lake City, Utah 84111.

3. Communications regarding this filing should be addressed to:

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In addition, Rocky Mountain Power requests that all data requests regarding this filing be sent in Microsoft Word or plain text format to the following:

By email (preferred): datarequest@pacificorp.com

By regular mail: Data Request Response Center
PacifiCorp
825 NE Multnomah, Suite 2000
Portland, Oregon 97232

Informal questions may be directed to Dave Taylor, Utah Regulatory Affairs Manager at (801) 220-2923.

BACKGROUND

4. Nearly ten years ago, Rocky Mountain Power filed an application with the Commission in Docket No. 03-035-14, seeking approval of an Integrated Resource Plan ("IRP")-based avoided cost methodology for QF projects larger than one (1) megawatt. After numerous technical conferences, pleadings, testimony filings and hearings the Commission issued the 2005 Order.

5. Under the 2005 Order, the Commission established two separate methodologies for calculating avoided cost prices for large wind QF resources between three (3) and 100 megawatts.[1] The first, the Market Proxy method, is applicable to wind QF resources up to an "IRP target" level of megawatts. The second, the Proxy/Partial Displacement Differential Revenue Requirement ("PDDRR") method, is applicable to wind QF resources in excess of the IRP target.

6. The Market Proxy method requires pricing for a wind QF resource based on the winning bid in the most recently executed renewable request for proposal ("RFP"). To derive avoided cost prices using the Market Proxy method, the Commission required the use of the Company's "most recently executed RFP contract … against which project specific adjustments are made to produce an indicative price for wind QFs in Utah."[2] Currently, the most recent renewable RFP was approved and issued in 2009, resulting in the development of the Dunlap wind facility.

[1] *In the Matter of the Application of PacifiCorp for Approval of an IRP Based Avoided Cost Methodology For QF Projects Larger Than One Megawatt,* Docket No. 03-035-14, Report and Order, October 31, 2005, pp. 18-25.
[2] *Id.*, p. 21.

7. For wind resources exceeding the IRP target, the Proxy/PDDRR method is used. Under the Proxy/PDDRR method, the Company performs two energy simulations to determine the system value of adding a QF resource, taking into account its specific operating characteristics and point of delivery on the Company's system. The Proxy/PDDRR method also provides a capacity payment based on the IRP cost of the "next deferrable resource." In applying the capacity payment, the method accounts for the difference between the capacity value provided by QF resources and the next deferrable resource, including but not limited to, the capacity contribution of the QF resource.

8. The 2005 Order defined the IRP target as "an accumulated target, currently 1,400 megawatts, with annual overages and underages rolled forward for the next year."[3] The 2005 Order also referred to use of the Proxy/PDDRR method in the context where "the next deferrable resource is no longer a wind resource,"[4] but stated in the ordering paragraph that "[f]or wind resources exceeding the IRP target, wind QF indicative pricing will be based, as it is for non-wind QFs, on the Proxy and PDDRR methods."[5]

9. Recently, the Commission issued its 2012 Order confirming that the IRP target does not take into account the timing of wind resource additions.[6] In its 2012 Order, however, the Commission acknowledged that "it can be questioned whether the current procedure for determining wind QF energy pricing continues to be in the public interest," and invited parties to file a request for agency action to re-examine the wind QF avoided cost pricing developed in the 2005 Order. [7]

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[3] *Id.*, pp. 18-19.
[4] *Id.*, p. 22.
[5] *Id.*, p. 33.
[6] *In the Matter of Blue Mountain Power Partners, LLC's Request that the Public Service Commission of Utah Require PacifiCorp to Provide the Approved Price for Wind Power for the Blue Mountain Project*, Docket No. 12-2557-01, Order on Request for Agency Action, September 20, 2012, pp. 9-10.
[7] *Id.*, pp.10-11.

RECOMMENDED CHANGES

10. It is the Company's position that many changes have occurred since the Commission issued its 2005 Order that warrant a re-examination of the currently effective methodologies for avoided cost pricing for renewable QFs. Given the nature of the Commission's review in Docket No. 03-035-14, however, it is not necessary for the Commission to re-evaluate all aspects of the 2005 Order. The Company seeks only to re-examine issues regarding renewable QFs exceeding the three (3) megawatt eligibility cap.

11. Specifically, Rocky Mountain Power requests evaluation of:

a. whether the Market Proxy method continues to produce avoided costs that are in the public interest, including (i) the definition the IRP target; (ii) the timing of the need for renewable resources; and (iii) the treatment of resources acquired for RPS compliance;

b. what the proper implementation of PDDRR for renewable QF resources is, including (i) the capacity contribution of intermittent resources; (ii) the type of resource deferred (thermal or renewable); and (iii) integration costs; and

c. what the ownership of renewable energy attributes ("RECs") from renewable QF resources is, including (i) the ownership of RECs under the Proxy/PDDRR method; and (ii) the right of a QF to buy-back RECs and the associated price.

A. Changes to Market Proxy Method

12. When the Commission originally established the Market Proxy method in the 2005 Order, it was anticipated that the Company would routinely issue RFPs for new renewable resources. In its 2005 Order, the Commission cited the testimony of the Office of Consumer Services, then the Committee of Consumer Services (the "Office") in support of the Market

Proxy method.[8] The referenced Office testimony explained that the Market Proxy method was appropriate because the Company would be adding wind resources every year in the foreseeable future:

> We now recommend that special treatment should be afforded wind QF resources that supply PacifiCorp with capacity that helps bring PacifiCorp's total wind capacity up to the limits specified in PacifiCorp's IRP 2004, 200 MW per year and 1,400 MW in total. … PacifiCorp determined that it would be economic to add approximately 200 MW of wind per year, and up to 1,400 MW total. As part of implementing its IRP action plan, PacifiCorp has signed some wind contracts and is working to add more wind resources to its system. In meeting the goals that the Company established in IRP 2004, it makes no difference whether a wind resource is acquired through an RFP solicitation or through a QF contract.[9]

13. While the Company routinely issued renewable RFPs between 2005 and 2009, a renewable RFP has not been issued since 2009, and the Company does not expect to issue a renewable RFP in the near future. As a result, the most recent renewable RFP used in the Market Proxy method is approximately four years out of date. It is based on the Dunlap wind facility, the winning bid in the 2009 RFP. Unless the methodology changes, the same costs will likely be used for several years in the future. The Market Proxy method results in paying a QF an outdated full proxy price well in advance of the need for additional renewable resources.

14. The absence of a renewable RFP since 2009 means that the Market Proxy method is based on costs that no longer reflect the current market price at which the Company could acquire a wind resource in a competitive bidding process.

15. Clearly, the Market Pricing method is no longer appropriate. In the 2011 IRP Update, the Company's most recently completed plan, there are no wind additions for the state of Utah. The only wind additions in the preferred resource expansion portfolio, scheduled to first

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[8] 2005 Order, p. 20.

[9] *In the Matter of the Application of PacifiCorp for Approval of an IRP Based Avoided Cost Methodology For QF Projects Larger Than One Megawatt,* Docket No. 03-035-14, Rebuttal Testimony of Philip Hayet, September 8, 2005, p. 24.

come online November 2018, are included to meet renewable portfolio standards ("RPS") in Oregon, Washington and California. Not only does the Company's 2011 IRP Update action plan not contemplate issuance of another renewable RFP for several years, but the next renewable RFP the Company plans to issue will be to acquire renewable resources that are mandated by other states' requirements. This ensures that avoided costs based on the Market Proxy method have nothing to do with the need or avoided costs in Utah and are obsolete compared to the costs the Company would avoid by acquiring new wind facilities today or in the future.

16. In sum, the Market Proxy method fails to account for the reasons and the timing of wind resource additions selected in the IRP. Instead, it assumes an immediate need based on the 2004 IRP. While this assumption is consistent with the 2004 IRP where wind additions were cost-effective in every year in the then-foreseeable future, the Market Proxy method does not account for changed circumstances and is therefore inconsistent with the 2011 IRP Update. The result is that retail customers must pay the full cost of a resource now based on 2009 prices, which are in excess of current market prices. The 2018 wind resources and subsequent wind resource additions are not cost-effective. In addition, developing pricing for a Utah wind QF based on the assumption that it will be used to satisfy another state's RPS requirement presents issues that were not contemplated when the Market Proxy method was adopted including inter-jurisdictional cost allocation, environmental attribute ownership, and uncertainty regarding future RPS compliance obligations, among others.

B. <u>Changes to PDDRR Method</u>

17. The 2005 Order determined the capacity contribution of wind to be based on the resource's projected heavy-load-hour capacity factor. Notably, in 2005 the Company had limited

data from which to measure actual wind production and capacity contribution.[10] The 2005 Order also did not present a method for determining the capacity contribution of other intermittent resources, such as solar. Since the 2005 Order, the Company has acquired one of the largest utility wind portfolios in the United States and has collected actual data from its wind fleet that can be used to more accurately compute the actual capacity contribution of intermittent resources.

18. In the 2005 Order, the Commission adopted the recommendation to revisit the avoided cost issues surrounding integration costs for intermittent resources as real data became available.[11] Since the 2005 Order, analytical efforts in this area have evolved to warrant a re-evaluation of how integration costs are included in the avoided cost for renewable resources.

C. <u>The Ownership of RECs under the PDDRR Method</u>

19. The 2005 Order did not address the ownership of RECs under the Proxy/PDDRR method. In the 2005 Order, the Commission explicitly limited its analysis of REC ownership to the Market Proxy method, stating:

> Since we adopt the RFP market-based price proxy rather than any combination that would include the IRP wind resource proxy, we focus our consideration with respect to market-based wind contracts.[12]

Accordingly, the ownership of REC's under the PDDRR methodology must be reviewed by the Commission.

20. The value for RECs is no longer prescribed a specific price in the IRP; rather the value is not quantified and is based on retaining the RECs for RPS compliance or to offset future carbon legislation and is not quantified. In the 2005 Order, wind QFs contracting under the Market Proxy method were given the right to buy back RECs at the value stated in the IRP, then

[10] *Id.*, p. 22.
[11] *Id.*, p. 24.
[12] *Id.*, pp. 24-25.

$5.00 per notional megawatt-hour.[13] Due to the change in this planning assumption from a quantitative value to a qualitative value, implementation of the QF buy-back provision of the 2005 Order has become unworkable.[14] This planning assumption raises a number of questions regarding the right of a wind QF contracting under the Market Proxy method to buy back RECs and the appropriate consideration in the transaction. Further, if RECs are not assigned to the Company, the wind resources could not be used to meet RPS requirements.

MOTION TO STAY

21. Based on the foregoing, the currently effective avoided cost pricing methodology is outdated and may cause the Company's customers to incur costs that exceed avoided costs.

22. A stay of the application of the Commission's 2005 Order pending the conclusion of this docket will not adversely affect the indicative pricing the Commission ordered the Company to provide to Blue Mountain Power Partners, LLC ("Blue Mountain") in Docket No. 12-2557- 01. The Company has already provided indicative pricing based on the Market Proxy method to Blue Mountain. However, due to the issues discussed above and the significant financial impact that indicative pricing based on the Market Proxy method would have on the Company's customers, the Company proposes not to offer indicative pricing based on that method to any wind QFs in excess of three (3) megawatts, with the exception of Blue Mountain, and requests a stay of the application of the 2005 Order from and after the filing date of this Request.

RELIEF REQUESTED

23. Based on the foregoing, the Company requests that the Commission:

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[13] *Id.*
[14] PacifiCorp's 2011 Integrated Resource Plan, Volume I, March 31, 201,1 p. 42.

a. immediately stay the application of the 2005 Order for indicative pricing based on the Market Proxy method to any wind QFs in excess of three (3) megawatts, with the exception of Blue Mountain, on or after the filing date of this Request, pending conclusion of this docket;

b. notice a scheduling conference at the earliest available time to establish a schedule for proceedings in this docket; and

c. approve changes to the currently effective avoided cost pricing for large QFs as provided in this Request.

Dated: October 9, 2012.

Respectfully submitted,

ROCKY MOUNTAIN POWER

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Yvonne R. Hogle

Attorney for Rocky Mountain Power

CERTIFICATE OF SERVICE

I hereby certify that on this 9th day of October, 2012, a true copy of the foregoing document was sent via email to the following:

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