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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
Charles Peterson, Technical Consultant
Sam Liu, Utility Analyst

Date: July 23, 2012

Re: **Docket No. 12-035-T10**, Advice No. 12-11. Schedule 37 - Avoided Cost Purchases from Qualifying Facilities, DPU's Review and Recommendation.
Docket No. 12-035-T09, Schedule 135—Net Metering, Division's Supplemental Recommendation.

RECOMMENDATION (Approval, with effective dates for Schedules 37 and 135 the same)

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). The filing contains Second Revisions of Sheets Nos. 37.3 and 37.4, with an effective date of July 29, 2012

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 29, 2012. On July 3, 2012, the Commission issued an Action Request to the

Division requesting response by July 23, 2012. 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.

On October 31, 2011, the Commission issued an Order Requesting Additional Information in Docket No. 11-035-T06: The Company shall file the following supplementary information: (a) Provide a direct link between the load and resource plan in the IRP and the period of resource deficiency identified in the Schedule 37 avoided cost rates; (b) explain the basis for including or excluding planning reserve in the calculation of short-run avoided energy cost; c) 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; and d) provide information regarding capacity deficits for all years during the resource sufficiency period.

The Division reviewed and checked the accuracy and reasonableness of the calculations in the Company's attachments. 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 Update, which was filed with the Commission on March 30, 2012.

Loads and Resources (L&R):

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

[1] *See* Docket No. 94-2035-03, Prefiled Direct Testimony of Rodger Weaver, pages 10-11.

calculated monthly to determine a basis for the short-run capacity payment.[2] The Company computes both of these L&R balances using information generated by its GRID model.

The Company's load and resource balance is calculated under the Commission-approved Schedule No. 37 methodology. Loads are based on the Company's November 2011 load forecast and resources, including Company-owned generation, long-term sales and purchase contracts were updated to include information available in May 2012.

In the Commission order in Docket No. 09-035-T14, the Company is directed "to label Table 1 with the applicable planning reserve margin assumption (e.g., 12 or 15 percent) in all subsequent filings of Schedule No. 37 rates." However, Table 1 simply has "reserves" labeled which amount to about 6.9 percent, in 2012, of the thermal and other sources. This is roughly half of the planning reserve margin used in the 2011 IRP Update. The L&R balance is derived from the GRID model calculations which include the reserves required by WECC, which are 5 percent for hydro generation and 7 percent for thermal generation resources. For planning purposes, the IRP does not use the GRID model and inserts a larger planning reserve. The Company has provided Table 12 that shows the calculations of the reserve margins that approximate the IRP planning reserve margin of 13 percent. Substituting the Table 12 reserves into Table 1 would show energy deficits sooner and in greater amounts than are shown on Table 1.

The Company argues that the L&R balance reserves and the IRP planning reserve margin are not measuring the same thing in that the IPR reserve margin is for long-term planning purposes and the L&R balance is a basis of long-term energy requirements based upon GRID modeling. Furthermore, the GRID model explicitly includes an estimate for planned and forced outages, which the Company's IRPs do not. Table 12 has the line item "Thermal Derates" which approximates the planned and forced outages in GRID. When the "Thermal Derates" amount is added to the WECC required operating reserves on Table 1, then the Company's IRP planning

[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.

reserve margin is approximated. The avoided cost methodology approved by the Commission is based upon GRID modeling.

Based upon this analysis and Company explanation the Division concludes that the Company has substantially complied with Commission orders in this matter.

Avoided Cost Calculation:

The avoided cost calculation is separated into two distinct periods: 1) the Short Run – a period of resource sufficiency (2012 through 2019); and 2) the Long Run – a period of resource deficiency (2020 and beyond).

1. Short Run Avoided Costs:

The Company provides short-run capacity payments based on the number of months in the year in which it is capacity deficient from 2012 to 2019. The Company calculates these monthly capacity payments from the estimated capital and fixed and variable operation and maintenance costs of an SCCT from its 2011 IRP Update. Capacity costs in this period are based on capacity purchases for the number of months that the company is capacity deficit.

2. Long Run Avoided Costs:

During the resource deficiency period (2020 and beyond) in which new resources are required to provide both summer and winter capacity and energy to meet the Company's resource requirements, avoided costs are the fixed and variable costs of a proxy resource that could be avoided or deferred. The current proxy resource is a combined cycle combustion turbine ("CCCT")[3]. Since CCCTs are built as base load units that provide both capacity and energy, it is appropriate to split the fixed costs of this unit into capacity and energy components. It is not like SCCT built as peak shaving unit that only provide capacity. In compliance with the Commission Order in Docket No. 03-035-14, 50% of the fixed costs associated with the construction of the CCCT resource in excess of the fixed costs of a SCCT is assigned to energy and is added to the

[3] 597 MW CCCT (Dry "F" 2x1) - East Side Options (4500') as listed in the 2012 IRP Update. Fuel costs are from the Company's May 2012 Official Forward Price Curve.

variable production (fuel) cost of the CCCT resource to determine the total avoided energy costs. The fuel cost of the CCCT defines the avoided variable energy costs.

Timing Differences between Schedule 37 and Schedule 135:

In its action request to the Division the Commission noted that it had ordered the Company to make "concurrent" filings of the annual updates to Schedules 37 and 135. The Division understands "concurrent" to mean "at the same time." The Company filed its update of Schedule 135 on June 15, 2012 with a requested effective date of July 1, 2012. As reviewed above, the Company filed the update for Schedule 37 on June 29, 2012 with a requested effective date of July 29, 2012.

It is clear that the Company did not file these two tariff updates concurrently. The purpose of the concurrent filing appears to be that Schedule 135 customers may choose between rates calculated under the "FERC Form 1" method as set forth in Schedule 135, or the Schedule 37 rates. This being the case, it is the Division's view that what is required by the choice to customers offered in Schedule 135, is not so much that the new tariff rates be filed with the Commission on exactly the same date, but that the new rates go into effect on the same date. While the Division has discovered no problem with the proposed tariff rates in either Schedule 135 or Schedule 37, the effective dates of the two tariffs need to be the same. Therefore, the Division recommends that the new rates for both tariffs go into effect on July 29, 2012.

CONCLUSION

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. Therefore, the Division recommends that the Commission approve the changes to Schedule 37 as filed by the Company.

As discussed above, the choice of rates given to Schedule 135 customers necessitates that rate changes in Schedule 135 and 37 go into effect simultaneously. Therefore, the Division recommends that the new rates for Schedules 37 and 135 go into effect on July 29, 2012.

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