- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

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| In the Matter of Rocky Mountain Power's Schedule No. 37, Avoided Cost Purchases from Qualifying Facilities | ) | DOCKET NO. 14-035-55 |
| In the Matter of Rocky Mountain Power's Proposed Revisions to Electric Service Schedule No. 37, Avoided Cost Purchases from Qualifying Facilities | ) | DOCKET NO. 14-035-T04<br>ORDER ON REVIEW |

ISSUED: December 30, 2014

## SYNOPSIS

On review of the October 21, 2014, Report and Order in Docket No. 14-035-T04, the Commission modifies its decisions regarding: 1) Elimination of the capacity and energy payment option, and 2) removal of the simple cycle combustion turbine capacity cost component during the period of resource sufficiency. All other decisions reached in the Report and Order remain in effect, as further substantiated by the discussion, findings and conclusions in this Order on Review.

## BACKGROUND AND PROCEDURAL HISTORY

On November 20, 2014, pursuant to Utah Code §§ 63G-4-301 and 54-7-15, and Utah Administrative Rule 746-100-11, Utah Clean Energy ("UCE"), SunEdison, LLC ("SunEdison"), and Sustainable Power Group, LLC ("sPower") (collectively, the "Petitioners") filed a request for agency action ("Request") with the Public Service Commission of Utah ("Commission") for agency review, reconsideration, or rehearing of the Commission's order issued October 21, 2014, in Docket Nos. 14-035-55 and 14-035-T04, ("October Order") captioned above.

Petitioners request review and relief related to four Commission decisions in the October Order affecting the rates set for Electric Service Schedule No. 37 – Avoided Cost

Purchases from Qualifying Facilities ("Schedule 37"). These decisions approved the following components in setting Schedule 37 rates: 1) include wind and solar integration costs, 2) eliminate the capacity and energy payment option, 3) remove the simple cycle combustion turbine ("SCCT") capacity cost component of Schedule 37 rates during the period of resource sufficiency, and 4) remove projected future carbon costs ("CO2") from the official forward price curve ("OFPC").

PacifiCorp, dba Rocky Mountain Power, ("PacifiCorp") and the Utah Division of Public Utilities ("Division") filed responses to the Petitioners' Request on December 5, 2014, recommending the Commission deny the Request. On December 10, 2014, the Commission granted review of the October Order.

## DISCUSSION, FINDINGS, AND CONCLUSIONS

### I. Introduction

PacifiCorp proposed revisions to Schedule 37 pricing in this docket to achieve consistency with the Commission's August 16, 2013, order in Docket No. 12-035-100[1] ("Schedule 38 Order"). That order established the method to be used for determining avoided cost pricing for renewable energy qualifying facilities ("QF") served under Electric Service Schedule No. 38 – Qualifying Facilities Procedures ("Schedule 38").

As an initial matter, we recognize the Schedule 38 process of determining and applying avoided cost pricing case-by-case on a project specific basis is complex and has the potential to create barriers to small QF development. We further recognize that one of the

[1] *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.*

objectives of Schedule 37 is to address this challenge by reducing the necessary time and resources associated with transactions for larger QFs under Schedule 38 by providing standard offer pricing for smaller QF projects (less than or equal to three MW for small power production facilities, or less than or equal to one MW for cogeneration facilities). This results in a streamlined contracting process. This objective is consistent with the legislative policy announced in Utah Code Ann. § 54-12-1 to encourage the development of small power production facilities and to remove unnecessary barriers to energy transactions involving independent energy producers and electrical corporations.

We are mindful, however, that in addition to preventing barriers to QF development, the Public Utility Regulatory Act of 1978 (and the Federal Energy Regulatory Commission or "FERC" regulations promulgated thereunder) and Utah Code Ann. § 54-12-2 charge the Commission with the responsibility to establish rates for QF power purchases. Those rates must "[b]e just and reasonable to the electric consumer of the electric utility," be "in the public interest," and "[n]ot discriminate against qualifying cogeneration and small power production facilities." Further, "[n]othing in [FERC's regulations] requires any electric utility to pay more than the avoided costs for purchases." 18 C.F.R. § 292.304(a)(1)-(2). *See also* 16 U.S.C. § 824a-3(b)[2] and Utah Code Ann. § 54-12-2. FERC's regulations define avoided costs as "the incremental costs to an electric utility of electric energy or capacity or both which, but for

[2] FERC's regulations define avoided costs as "the incremental costs to an electric utility of electric energy or capacity or both which, but for the purchase from the qualifying facility or qualifying facilities, such utility would generate itself or purchase from another source." 18 C.F.R. § 292.101(b)(6).

the purchase from the qualifying facility or qualifying facilities, such utility would generate itself or purchase from another source." 18 C.F.R. § 292.101(b)(6).

In other words, although removing unnecessary barriers to small QF development is an important objective, the means to achieve that objective cannot override the Commission's statutory responsibility to maintain ratepayers' indifference to the sources of the power they consume.

In light of the objectives of state and federal law governing QF power purchases, the Commission's decisions in the October Order were informed in part by our recognition that pricing under the Schedule 38 method more accurately reflects avoided costs because that method identifies costs avoided based on the specific characteristics of an actual proposed generation project, rather than a generic QF. Further, we relied on the Schedule 38 Order because various factors affecting avoided cost calculations were fully and recently litigated in that proceeding. Based on the expert testimony of PacifiCorp, the Division, and the Office, we concluded that applying certain decisions rendered in the Schedule 38 Order to Schedule 37 pricing would improve consistency between the avoided cost prices in both schedules, produce reasonably accurate avoided cost calculations, and achieve ratepayer indifference, while maintaining a reasonable measure of simplicity for Schedule 37 QFs.

Upon further examination of the record in this docket, we modify our October Order in two respects. Specifically, the Commission modifies its decisions regarding: 1) elimination of the capacity and energy payment option and 2) removal of the SCCT capacity cost component during the period of resource sufficiency.

It remains our intention to achieve reasonable consistency in avoided cost pricing under both schedules to the extent possible, while maintaining the original benefits associated with a posted price QF tariff that were the impetus for Schedule 37. Our actions in this Order on Review also reflect our understanding that avoided cost determinations can be extremely complex and dependent on multiple assumptions, data inputs, calculations and estimates. The Commission relies on the robust participation of parties to thoroughly test and vet such data and assumptions to produce evidence to which the guiding principles discussed may be applied. In reviewing the record in this docket, the Commission fully expects the issues addressed in the October Order will continue to be examined and tested in future proceedings. Ultimately, our goal and mandate is to maintain the standard of ratepayer neutrality required under the laws governing QF power purchases.

## II. Wind and Solar Integration Costs

### A. Parties' Positions

#### 1. Petitioners

Petitioners argue the Commission's decision to include wind and solar integration costs in Schedule 37 pricing is not supported by findings of fact based on evidence of record and contains no explanation of the reasons for including wind and solar integration costs in Schedule 37 pricing. Petitioners argue that without evidentiary justification, inclusion of these costs is discriminatory to Schedule 37 QFs and discourages QF development by artificially lowering prices, contrary to state and federal law.

#### 2. PacifiCorp

PacifiCorp argues the wind and solar integration costs approved by the Commission in the October Order are fully supported in the record by PacifiCorp's direct and rebuttal testimony. PacifiCorp testified in its direct case that Schedule 37 prices for wind and solar resources are reduced for integration costs consistent with the method approved in the Schedule 38 Order. Specifically, PacifiCorp testifies it used its most recent wind integration costs as filed in its 2013 Q2 Schedule 38 compliance filing.

PacifiCorp argues it rebutted assertions that applying integration costs but not transmission system adjustments is inconsistent with Schedule 38 by stating the two issues are considered independently in Schedule 38. Further, PacifiCorp argues it used the solar integration costs approved in the Schedule 38 Order, pending completion of its solar integration cost study. In rebuttal testimony, PacifiCorp explained there is no reason to apply different integration cost standards to the two schedules because Schedule 37 contains about the same megawatts ("MW") in total as one 45 MW Schedule 38 contract. Finally, PacifiCorp argues that including wind and solar integration cost in Schedule 37 pricing is consistent with the Schedule 38 Order which included findings of fact supporting these adjustments.

**3. Division**

The Division argues the evidence in this docket is substantial and sufficient to support including wind and solar integration cost in Schedule 37 rates. Contrary to Petitioners' arguments, the Division argues the Commission can find that Schedule 37 QFs are analogous to Schedule 38 QFs even without a specific study examining Schedule 37 QF integration costs. The Division argues the Commission may rely on expert witness testimony and its own knowledge and expertise to make this finding.

The Division argues prefiled and live expert witness testimony in the record support a finding that Schedule 37 QFs impose similar integration costs as Schedule 38 QFs and therefore such costs should be taken into account in setting Schedule 37 rates. The Division cites the fact that integration costs proposed by PacifiCorp were included in the application in Exhibit A, Tab 12, and that these proposed costs reflect the decisions in the Schedule 38 Order. The Division notes the Commission has knowledge of the Schedule 38 Order which is referenced extensively throughout the testimony of expert witnesses in this docket. Further, the Division cites the expert witness testimony of PacifiCorp witness Mr. Duvall stating, "there is no reason to believe that there's a difference in integration costs, integration requirements between transmission and distribution voltage levels."[3]

The Division also disagrees with Petitioners' assertions that including the same integration costs in Schedule 37 rates as for Schedule 38 QFs is discriminatory. The Division argues the application of the same costs to two different classes of QFs that are similar is within the discretion of the Commission if it finds doing so will result in accurate avoided costs based on the facts presented.

**B. Findings and Conclusions**

As stated in the October Order, our decision to include wind and solar integration costs in Schedule 37 pricing rests on the expert testimony and other evidence presented in the case by PacifiCorp, the Division and the Office. These parties cite the Schedule 38 Order that approved a method for adjusting QF prices for wind integration costs and approved use of solar

[3] September 16, 2014 Tr. 11-12. See also Rebuttal Testimony of Gregory N. Duvall at p. 4-5.

integration charges of $2.83 per megawatt hour ("MWh") for fixed solar resources and $2.18 per MWh for tracking solar resources, pending the review of a solar integration cost study. For consistency with the fully litigated Schedule 38 docket and to ensure ratepayers do not subsidize Schedule 37 QFs by bearing the cost of QF resource integration, PacifiCorp, the Division, and the Office recommended the Commission approve wind and solar integration costs in Schedule 37 pricing as well. We agree.

We recognize no studies were conducted to address wind and solar integration costs specifically related to Schedule 37 QFs as opposed to Schedule 38 QFs. We remain persuaded, however, by the expert witness testimony of PacifiCorp witness Duvall that integration costs are imposed regardless of resource size or voltage level. We further rely on PacifiCorp's unrebutted testimony that it has approximately 45 MW of Schedule 37 contracts which is equivalent to one 45 MW Schedule 38 QF. From this we conclude it would be illogical and discriminatory to apply a wind or solar integration cost to the pricing of some QF contracts but not others. Additionally, no party argued zero integration costs are imposed by Schedule 37 QFs. Thus, we conclude an adjustment to account for the costs to integrate Schedule 37 intermittent resources is necessary to ensure retail customers do not bear these costs in violation of the PURPA ratepayer indifference standard.

Recognizing our statutory responsibility to maintain ratepayer neutrality, and considering the evidence regarding integration cost presented in this case, we find that including the wind and solar integration cost adjustments proposed by PacifiCorp is just and reasonable and in the public interest. We therefore affirm our decision to include them in Schedule 37 rates. We await future Schedule 37 proceedings to consider additional evidence presented on this issue.

## III. Elimination of Capacity and Energy Rates Payment Option

### A. Parties' Positions

#### 1. Petitioners

Petitioners argue the October Order lacks findings of fact or explanations of the reasoning for eliminating the capacity and energy payment option or from deviating from prior orders. Further, Petitioners argue that possible explanations for elimination of the capacity and energy payment option lack evidentiary support.

#### 2. PacifiCorp

PacifiCorp argues Petitioners ignore the evidence presented by PacifiCorp's witness on this issue. Specifically, PacifiCorp argues Mr. Duvall's testimony proposed eliminating the capacity and energy rates payment option because continuing with the option violates the ratepayer indifference standard and discriminates between two similarly situated QFs. PacifiCorp cites Mr. Duvall's direct testimony stating that "[u]nder the current Schedule 37 the two pricing options offered do not produce the same total payments to an individual QF."[4]

PacifiCorp also cites its testimony explaining the option may result in capacity payments even when capacity cost is not avoided. Further, PacifiCorp cites to its rebuttal testimony that even with adjustment to reflect the capacity value of renewable resources, it remains concerned that two different avoided costs could be paid to similarly situated QFs, and

[4] Rocky Mountain Power's Response to Utah Clean Energy, SunEdison LLC, and Sustainable Power Group, LLC's Request for Agency Review, Reconsideration or Rehearing at p.4, *citing* Direct Testimony of Gregory N. Duvall at 14; 311-15; 318.

also that PacifiCorp would continue to pay capacity costs to QFs based on the highest 15 minute output during a month.

**3. Division**

The Division disagrees with Petitioners and argues the record contains substantial evidence regarding elimination of the capacity and energy payment option. The Division points to PacifiCorp's testimony noted above and testimony from the Office stating the "current Schedule 37 pricing format that includes a capacity payment can provide QF compensation that greatly exceeds the Company's avoided cost. This violates the PURPA standard of ratepayer indifference. In addition, the current two pricing formats under Schedule 37 provide substantially different payments to a QF."[5] The Division, however, also cites testimony of the Office's witness agreeing it would be possible to set both payment options so they were consistent.[6] The Division concludes the testimony presented is sufficient for the Commission to conclude the two pricing options result in different rates. The Division argues the decision to simplify Schedule 37 to a single rate is a policy choice within the discretion of the Commission and no further facts are necessary to eliminate one option.

**B. Findings and Conclusions**

Our decision to eliminate the capacity and energy rates payment option rested on the expert testimony of PacifiCorp, the Division and the Office. These parties argued the two different payment methods currently produce substantially different avoided costs and the

[5] September 16, 2014 Tr. 52:16-22.
[6] September 16, 2014 Tr. 60:12-16.

capacity and energy payment option overstates avoided costs and therefore contravenes PURPA's ratepayer indifference standard.

The Petitioners essentially agree this is true unless the capacity payments are adjusted to reflect the capacity contribution of intermittent resources. The Petitioners argue this adjustment is achieved by the Commission's October Order approving capacity contribution factors for intermittent resources. Petitioners argue there is no evidence the two payment methods yield different avoided costs once the capacity contribution factors for intermittent resources are applied.

Upon further review of the record, we agree neither PacifiCorp, the Division nor the Office produce evidence showing the capacity and energy payment option, with capacity contribution values applied for intermittent resources, produce materially different payments to Schedule 37 QFs. We recognize that absent an adjustment for the intermittent characteristics of solar resources, as we have approved for wind resources, the two payment options for solar resources could produce materially different prices for QF power. However, our October Order approved solar capacity contribution factors that reduce the capacity payment. Those solar capacity contribution factors should affect the resulting prices.

Further, we recognize the capacity and energy payment option is longstanding precedent. We conclude this payment option should be eliminated only with further review and evidence subsequent to the capacity contribution adjustments of our October Order. Therefore, for the present we will retain the capacity and energy payment option. We will consider further evidence and argument regarding the two payment options in future Schedule 37 proceedings.

## IV. Remove SCCT Capacity Cost in the Resource Sufficiency Period

### A. Parties' Positions

#### 1. Petitioners

Petitioners argue credible, uncontradicted evidence in the record demonstrates removal of a capacity payment based on the costs of an SCCT during the resource sufficient period undercompensates Schedule 37 QF capacity relative to Schedule 38 QF capacity. Thus, Petitioners argue the elimination of the SCCT component of pricing results in unjust, unreasonable and discriminatory treatment of Schedule 37 QFs; therefore, the Commission should reinstate this component of the Schedule 37 avoided cost calculation. Further, Petitioners argue the decision to eliminate the SCCT component of Schedule 37 pricing for consistency with Schedule 38 is improper and leads to discriminatory pricing in conflict with the 18 CFR § 292.304(a) requirement that rates for purchases from QFs must not discriminate against QFs.

#### 2. PacifiCorp

PacifiCorp argues Petitioners overlook PacifiCorp's primary point in requesting removal of the SCCT capacity cost from Schedule 37 rates. PacifiCorp argues its request was based on the Commission's decision in the Schedule 38 Order to exclude combined cycle combustion turbine ("CCCT") costs during the period of resource sufficiency. PacifiCorp points to its testimony stating, "…it does not make sense to include additional capacity payments during the sufficiency period for a QF under 3 MW when it is clearly not appropriate for a QF

larger than 3 MW."[7] PacifiCorp argues the Commission's explicit finding that adding capacity values based on an SCCT would result in excessive prices supports ratepayer neutrality.

**3. Division**

The Division argues Petitioners misinterpret the Division's testimony in asserting there is credible, uncontradicted evidence in the record that Schedule 37 QFs are undercompensated for capacity relative to Schedule 38. The Division argues its testimony concedes Schedule 37 and Schedule 38 QFs are not compensated in the same way but denies this leads to the conclusion that Schedule 37 QFs are undercompensated or that payments should be made for costs that are not avoided. The Division argues there is no evidence that an SCCT is avoided by Schedule 37 QFs during the sufficiency period. The Division argues payment for costs in excess of those that can be avoided is prohibited by PURPA.

Finally, the Division argues its expert testimony clearly states, regarding Schedule 37 QFs, "…they're not going to be undercompensated based on the calculations that are put there in the grid model and the calculations for avoided costs."[8] Therefore, the Division contests Petitioners' claim of uncontroverted evidence that Schedule 37 QFs are undercompensated.

**B. Findings and Conclusions**

Our decision to remove the SCCT capacity cost from the Schedule 37 avoided cost calculation method was based "at least in part, on our Schedule 38 Order that finds wholesale power purchased to meet capacity constraints already contains capacity value;

[7] Direct Testimony of Gregory N. Duvall at 12; 263-265.
[8] September 16, 2014 Tr. 47:3-7.

therefore, adding the SCCT value to the wholesale market price is excessive."[9] Upon further examination of the record, we find the two methods are meaningfully different with respect to the identification of capacity cost avoidance during the resource sufficient period. We recognize our decision on this issue in the Schedule 38 Order was specific to the PDDRR/Proxy method. [10]

While it is true PacifiCorp does not currently plan to build a resource like an SCCT to meet its short term capacity constraints, for Schedule 37 pricing we long ago approved using SCCT fixed costs as a proxy to value the capacity avoided through power purchases in months during the period of resource sufficiency in which PacifiCorp is capacity deficient.[11] PacifiCorp's proposed Schedule 37 method contains no alternative means for identifying the full capacity value contained in such avoided purchases. In fact, PacifiCorp's calculations yield identical peak and off-peak prices during the period of resource sufficiency, a first time result for Schedule 37 pricing. The record contains no discussion by PacifiCorp, the Division, or the Office that this result is reasonable, and our October Order recognized that further evaluation of peak and off-peak prices was appropriate.[12]

While it remains our goal to produce logically consistent avoided cost pricing in Schedule 37 and Schedule 38, we recognize the record in this case presents no alternative means,

[9] October Order at pp. 18-19.
[10] The Partial Displacement Differential Revenue Requirement or "PDDRR" method for determining avoided energy cost along with the "Proxy" method for determining avoided capacity cost constitute the Commission's established method (referred to as the "Proxy/PDDRR method") for determining indicative avoided cost pricing for Schedule 38 QF resources.
[11] While use of the fixed cost of an SCCT was explicitly approved in our June 1, 2004, Order in Docket No. 03-035-T10, we note use of a proxy to value avoided capacity cost in summer months during the period of resource sufficiency has been a component of Schedule 37 rates since Docket No. 94-2035-03. At that time the value was based on a summer capacity purchase agreement with Washington Water Power Company.
[12] October Order at p. 19.

aside from the fractional SCCT value, for calculating the full Schedule 37 avoided capacity cost during resource constrained months in the period of resource sufficiency. Thus, pending receipt of additional evidence in a future proceeding, we will maintain the SCCT cost component in Schedule 37 to account for the value of capacity avoided in the constrained months during years in which PacifiCorp is otherwise resource sufficient. We await the presentation of evidence in future Schedule 37 proceedings describing any alternative approach for valuing avoided capacity costs and peak and off-peak avoided costs during the period of resource sufficiency.

## V. Remove Carbon ("CO2") Taxes from the Official Forward Price Curve

### A. Parties' Positions

#### 1. Petitioners

Petitioners argue the Commission has erroneously assumed the CO2 cost in the OFPC represents a projected tax. Petitioners argue that view is not supported by the record. Rather, Petitioners argue the record supports the view that the cost is a proxy for expected future costs associated with carbon regardless of the manner in which the cost is enacted, implemented or incurred.

Petitioners also argue there is no support in the record for a finding that PacifiCorp is expected to incur absolutely zero carbon-related costs during the 20-year period at issue. To the contrary, Petitioners argue PacifiCorp expects to incur carbon-related costs and uses various projections of such costs in its planning and modeling. Petitioners also argue it is discriminatory to QFs to allow PacifiCorp to use a carbon price for all resource decision-making except for QF pricing.

**2. PacifiCorp**

PacifiCorp asserts it is irrelevant for the Petitioners to argue no support exists in the record for a finding that PacifiCorp does not expect to incur any carbon costs during the next 20 years. PacifiCorp argues the Commission did not base it decision on such a finding. Rather, PacifiCorp argues the Commission based its decision on prior orders that PacifiCorp cited and relied on to support its application.

PacifiCorp argues, to the extent there is a potential risk of future environmental cost, these are accounted for in the integrated resource planning and modeling process and influence PacifiCorp's long-term plan which in turn impacts the calculation of avoided cost. PacifiCorp argues that including an adder to the avoided cost price would essentially double count potential carbon costs resulting in unreasonably high QF prices that do not reflect avoided costs. Thus, PacifiCorp recommends the Commission reject Petitioners' arguments to include carbon costs in Schedule 37 rates.

**B. Findings and Conclusions**

Our decision in the October Order rests on the expert testimony of PacifiCorp and the Office. PacifiCorp testifies it includes a $16 per ton CO2 tax beginning in 2022 in its March 2014 OFPC,[13] the OFPC for electricity used to calculate Schedule 37 rates in this docket. PacifiCorp asserts it adjusted its OFPC for electricity to remove the CO2 adder in this docket. We find it is not inconsistent to include a CO2 tax in the OFPC in the integrated resource plan ("IRP") analysis but exclude the tax for avoided cost calculations. We agree that IRP risk

[13] PacifiCorp notes that due to its blending of market quotes and modeled prices, prices in 2021 are also affected.

assumptions regarding a future CO2 tax are only estimates of possible future costs and therefore should not be included in avoided cost calculations where customers ultimately pay actual dollars. Until CO2 costs are more certain and better defined, we find a CO2 cost estimate should not be used in the development of avoided cost prices.

According to the Office, because the Commission excluded adjustments for environmental risk in its Schedule 38 Order, PacifiCorp's removal of CO2 taxes from the OFPC in the calculation of avoided cost pricing in Schedule 37 is appropriate. Further, the Office testifies five different CO2 price assumptions are employed in the IRP making it difficult to strictly apply IRP assumptions in avoided cost pricing. Indeed, the Office notes PacifiCorp's preferred portfolio is developed from a case that assumes no CO2 taxes.

We affirm our decision to exclude CO2 taxes from the OFPC for electricity in this case based on the expert testimony of PacifiCorp and the Office. Our decision is rooted in the fact that no such tax as proposed to be included in the OFPC exists at this time. FERC defines avoided costs as "the incremental costs to an electric utility of electric energy or capacity or both which, but for the purchase from the qualifying facility or qualifying facilities, such utility would generate itself or purchase from another source."[14] Though a possibility, it is highly uncertain whether a tax will be imposed in the 20-year planning horizon. Thus, it is similarly uncertain whether a QF will cause PacifiCorp to avoid paying such a tax.

We find that forecasting CO2 cost in the future is very different from forecasting capacity and energy requirements over time. Currently, it is unknown whether, when, and in

[14] See 18 CFR § 292.101(b)(6).

what fashion CO2 policy will affect future energy and capacity costs. It is, however, known that fuel costs, for example, will be incurred and when the costs will be incurred at a price or cost forecasted over a 20-year period. Such a forecast is necessary to comply with 18 CFR §292.304(d)(2)(ii) which requires rates for QF purchases to be based on "the avoided costs calculated at the time the obligation is incurred."

Moreover, our October Order regarding possible future carbon-related costs is sound, regardless of whether such costs originate as a CO2 tax or as the effects of regulations. With respect to the United States Environmental Protection Agency's ("EPA") proposed rules to regulate carbon emissions from existing power plants under Section 111(d) of the Clean Air Act, we observe that the EPA has only recently begun to review comments on the proposed rule and has committed to publish its final rule in June of 2015. As we noted in the October Order, potential compliance strategies are only in the initial stages of exploration and resultant costs are still highly speculative. We also recognize that legal challenges to the rule may further impact compliance strategies and costs. We conclude that when the eventual imposition and level of CO2-related costs are so uncertain, it is unreasonable and contrary to the public interest to include a projection of such costs in avoided cost calculations. We look forward to continued examination of the treatment of CO2 costs as developments relative to the proposed 111(d) rules ensue.

## ORDER

Pursuant to our discussion, findings and conclusions, we order:

1. The decision regarding the elimination of the capacity and energy payment option included in the October Order is modified, as described herein;

2. The decision regarding the removal of the simple cycle combustion turbine capacity cost component during the period of resource sufficiency included in the October Order is modified, as described herein; and
3. PacifiCorp is directed to amend Schedule 37 and to file Schedule 37 rates consistent with this order within 20 days.

. DATED at Salt Lake City, Utah, this 30th day of December, 2014.

/s/ Ron Allen, Chairman

/s/ David R. Clark, Commissioner

/s/ Thad LeVar, Commissioner

Attest:

/s/ Gary L. Widerburg
Commission Secretary
DW#262787

Notice of Opportunity for Review

This Order constitutes final agency action. Judicial review of the Commission's final agency action may be obtained by filing a Petition for Review with the Utah Supreme Court within 30 days after final agency action.

CERTIFICATE OF SERVICE

I CERTIFY that on the 30th day of December, 2014, a true and correct copy of the foregoing was served upon the following as indicated below:

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