



GARY HERBERT
Governor
SPENCER J. COX
Lieutenant Governor

State of Utah
Department of Commerce
Division of Public Utilities

FRANCINE GIANI
Executive Director

THOMAS BRADY
Deputy Director

CHRIS PARKER
Director, Division of Public Utilities

To: Utah Public Service Commission

From: Utah Division of Public Utilities
Chris Parker
Energy Section
Artie Powel, Manager
Abdinasir Abdulle, Utility Analyst

Date: July 16, 2015

Re: 15-035-T06, In the Matter of Rocky Mountain Power's Proposed Revisions to Electric Service Schedule No. 37, Avoided Cost Purchases from Qualifying Facilities.

Recommendation (Approve)

The Division of Public Utilities ("Division") recommends that the Public Service Commission ("Commission") approve Rocky Mountain Power's ("Company") proposed input updates and changes in the method for calculating the avoided cost prices for Electric Service Schedule 37 filed with the Commission on April 30, 2015 as reasonable and consistent with previous relevant Commission Orders.

Issue

In compliance with Commission Orders in Docket No. 08-035-78, dated February 12, 2009 and 12-035-T10, dated November 28, 2012, On April 30, 2015, the Company filed with the

Commission Advise No. 15-7 in Docket No. 15-035-T06 requesting approval of its proposed input updates and changes in the method for calculating the avoided cost prices for Electric Service Schedule 37. On May 1, 2015, the Commission issued an Action Request to the Division to investigate the proposed changes and make recommendations by May 15, 2015. On the same date, the Commission issued a Notice of Filing and Comment Period requesting any interested party to submit comments on PacifiCorp's proposed tariff revisions on or before Friday, May 15, 2015, and reply comments on or before Friday, May 22, 2015. On May 14, 2015, the Commission issued a Notice of Vacated Comment and Reply Deadlines and Scheduling Conference. On May 19, 2015, the Commission held a Technical Conference in which the parties agreed that the Commission hold a Technical, Status, and Scheduling conference on Friday, June, 12, 2015. On June 26, 2015, the Commission issued a Scheduling Order which required all parties to submit comments on Thursday, July 16, 2015 and reply comments on Thursday, July 23, 2015. This memorandum represents the Division's comments on the Company's proposed revisions to Schedule 37 filed on April 30, 2015.

Discussion

In its Order, dated February 12, 2009, in Docket No. 08-035-78, the Commission directed the Company to annually update the avoided cost pricing in Schedule 37 in order to establish the value or credit for net excess generation of large commercial customers under Schedule 135 Net Metering Service. In its Order, dated November 28, 2012, in Docket No. 12-035-T10, the Commission directed the Company to file future annual filings within 30 days of filing the Company's Integrated Resource Plan ("IRP") or by April 30 of each year, whichever comes first. In compliance with these Orders the Company filed its updated avoided cost pricing for Schedule 37 on April 30, 2015.

In addition to the routine updates of the load forecast, discount rate, and the Official Forward Price Curves, the Company proposes some changes to the Commission approved method for calculating avoided cost prices for Schedule 37. These changes include:

- During the sufficient period, avoided cost rates should be calculated using the GRID model excluding the fixed costs related to the deferral of Simple Cycle Combustion Turbine (SCCT). However, the value of short-term firm market purchases and the front office transactions that can be replaced by the qualifying facility are included in the GRID simulation.
- The avoided costs calculated using the GRID model are differentiated into on-peak and off-peak periods based on the relationship of Palo Verde on-peak and off-peak market prices to flat Palo Verde market prices, respectively.

The proposal to exclude the fixed costs of SCCT from the calculation of the avoided cost prices for Schedule 37 during the sufficiency period was first made in Docket Nos. 14-035-T04 and 14-035-55. However, the Commission denied that proposal citing a number of deficiencies. These deficiencies included, but were not limited to, the fact that no party showed whether the inclusion of SCCT cost still reflect avoided cost and ratepayer indifference and the fact that the on-peak and off-peak prices resulting from the exclusion of SCCT are identical.

In the current filing the Company provided details supporting its proposed avoided costs as appendices to its filing and work papers. The Division reviewed the Company's filing and supporting documents to determine the reasonableness of its proposed changes and whether it addresses the Commission's earlier concerns about this issue. The Division concluded that the current filing addresses the Commission's concerns in Docket Nos. 14-035-T04 and 14-035-55.

The current method for calculating the avoided costs for Schedule 37 separates the avoided costs into two periods, a period of resource sufficiency and a period of resource deficiency. During the sufficiency period, avoided costs are based on the performance of two GRID runs, one with and the other without an assumed 10MWa resource at zero cost. The difference in net power cost (NPC) between these two runs is the avoided energy cost. An additional capacity cost based on the fixed costs of SCCT is then added to the avoided cost calculated by GRID. During deficiency period, avoided costs are the fixed and variable costs of a proxy resource.¹

The Company claims that, during the sufficiency period, it has no plans to procure thermal resources, therefore it cannot defer a SCCT. The Division notes that this claim is consistent with the 2015 IRP which indicates that during the sufficiency period the Company will avoid FOTs. Furthermore, the Company claims that since what it is actually avoiding is FOTs rather than SCCT, continued inclusion of SCCT in the calculation would not reflect actual capacity costs the Company will avoid.

As a remedy for this potential problem, the Company proposed to eliminate the capacity costs related to the deferral of SCCT from the calculation of Schedule 37 avoided cost rates. Instead the Company included in the GRID simulation FOTs from the IRP which could be displaced by the addition of the assumed generic resource. To show the impact of this proposal, the Company prepared updated rates using the currently approved method which includes the SCCT (Confidential Appendix 4) and the proposed method which excludes SCCT (Appendix 1, Appendix 2, and confidential Appendix 3). The Division reviewed these Appendices and did not

¹ In Docket No. 14-035-55 and 14-035-T04, the Commission adopted several changes to the method of calculating avoided costs for Schedule 37. These changes include, reflecting the integration costs and capacity contribution of intermittent resources, excluding future CO2 taxes from the official forward price curve, and eliminating separate payments to the QF for capacity and energy.

see any calculation problems in them. The Division concurs with the Company's argument that inclusion of the SCCT in the sufficiency period reflects capacity costs the Company is not able to actually avoid. Furthermore, to the extent FOT include a capacity value, inclusion of the SCCT potentially over compensates the QF for its capacity value.

A comparison of the results of these two updates show that the avoided costs calculated using the proposed method are less than those calculated using the current approved method by \$5.67, \$0.68, \$4.14, and \$5.58 for base load, wind, solar fixed, and solar tracking, respectively.² In the Division's view, these results demonstrate that the continued inclusion of SCCT costs would overcompensate the QFs and, thus, is contrary to the PURPA's customer indifference standard and is not in the public interest.

For these reasons, the Division recommends that the Commission approve the Company's proposed elimination of the SCCT capacity costs during the sufficiency period for the purposes of calculating Schedule 37 avoided costs rates.

In compliance with the Commission Order in Docket Nos. 14-035-55 and 14-035-T04, the Company proposed to differentiate the GRID avoided costs into on-peak and off-peak prices based on the relationship between Palo Verde on-peak and off-peak market prices and the Palo Verde flat market prices, respectively. That is, the on-peak prices are equal to the GRID avoided cost multiplied by the ratio of the Palo Verde on-peak market prices and Palo Verde flat market prices. Similarly, the off-peak prices are equal to the GRID avoided cost multiplied by the ratio of the Palo Verde off-peak market prices and Palo Verde flat market prices. This method yields distinct avoided costs for the on-peak and off-peak periods. This calculation is contained in

² Table 1 on page 4 of the Direct Testimony of Rocky Mountain Power's Brian Dickman.

Appendix A of the Company's filing. The Division believes that the method the Company used to differentiate the avoided costs into on-peak and off-peak periods is reasonable.

Conclusion

The Division reviewed the Company's filing and accompanying work papers and concludes that the filing and the changes proposed in it are reasonable and in compliance with Commission Orders. Therefore, the Division recommends that the Commission approve the Company's proposed changes.

CC: Bob Lively, RMP

Michele Beck, OCS