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BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

THE APPLICATION OF ROCKY MOUNTAIN POWER'S PROPOSED REVISIONS TO ELECTRIC SERVICE SCHEDULE NO. 37, AVOIDED COST PURCHASES FROM QUALIFYING FACILITIES	**Docket No. 15-035-T06** **RENEWABLE ENERGY COALITION'S COMMENTS**

I. Introduction

Pursuant to the June 26, 2015 Scheduling Order, the Renewable Energy Coalition ("REC") submits these comments recommending that the Public Service Commission of Utah (the "Commission") reject Rocky Mountain Power's proposal to eliminate the capacity payments in Schedule 37. Rocky Mountain Power's proposal is inconsistent with the Public Utility Regulatory Policies Act ("PURPA") and Utah law because it significantly under compensates qualifying facilities ("QFs") for the capacity value they provide to the company and ratepayers. A capacity payment should be retained for all QFs because they can help Rocky Mountain Power avoid more than just short-term firm purchases. In addition, existing QFs that have been selling to Rocky Mountain Power provide significant capacity value because the company plans on their continued operation in its integrated resource plan ("IRP"). At a minimum, existing QFs that are

assumed to operate in Rocky Mountain Power's IRP should continue to receive full capacity payments.

REC also notes that Rocky Mountain Power has filed a case to reduce the maximum contract term with QFs to three years in Docket No. 15-035-53. The appropriate contract term can have an impact on how QFs are fully compensated for the capacity they provide to their utilities. For example, adoption of a three year contract term would mean that Rocky Mountain Power's avoided cost rates would only include prices based on the resource sufficiency period and a QF could not obtain payments based on a combined cycle combustion turbine ("CCCT"). This could warrant including a portion of the costs of a CCCT in a three-year contract to ensure that a QF is compensated for deferring these costs. While REC is not submitting comments on the request for three-year contracts at this time, REC urges the Commission not to consider these filings in isolation and recognize that any decision in this proceeding should be re-evaluated if the contract terms for QFs are reduced.

II. Renewable Energy Coalition

REC's primary goal is to ensure fair and reasonable contract terms, conditions, processes, and avoided cost rates for all projects and ratepayers. While REC represents the interests of baseload QFs, REC recognizes that PURPA must work to benefit all interested parties, including the utilities, ratepayers, and new and existing QFs of various sizes.

REC was established in 2009, and is comprised of over thirty members who own and operate nearly forty non-intermittent QFs in Oregon, Idaho, Washington, Utah, and Wyoming. REC's members have power purchase agreements with Northwest and Rocky Mountain electric utilities, including PacifiCorp.

REC's members include government entities and municipal corporations, including Wasatch Integrated Waste Management District, and Draper Irrigation District which are located in Utah. Other individual member(s) own and operate small QFs in Utah as well. As irrigation and waste management districts, the power sales for these facilities are reinvested into the community. Therefore, sales from these QFs provide significant benefits to the local economy. Individual member owned small hydro project(s) also provide local economic benefirts.

REC actively participates in utility rate proceedings and investigations regarding power purchase agreement terms and conditions including avoided cost prices, integrated resource planning, interconnection, and other matters relevant to QFs and independent power producers. REC also monitors and lobbies legislatures on energy policy matters. In addition, REC provides consulting services to individual members on contractual, operational, interconnection, and other issues related to their electric generation facilities and the interface with the purchasing utility.

III. PacifiCorp's Revisions to Schedule 37

Rocky Mountain Power has a significant energy and capacity resource need during its resource sufficiency period. In this proceeding, Rocky Mountain Power states that it will rely upon market purchases, or front office transactions, for both its energy and capacity needs for the next 12 to 13 years. During this long time period, Rocky Mountain proposes that Schedule 37 only include the company's estimates of the market purchase prices, and to remove the capacity payment based on a simple cycle combustion turbine ("SCCT"). The value of market purchases would be estimated using Rocky Mountain Power's Generation and Regulation Initiative Decision computer model.

IV. PacifiCorp's Schedule 37 Proposal Violates PURPA and Utah Law

PURPA requires an electric utility to pay QFs for the energy and capacity that they provide. Specifically, "[e]ach electric utility shall purchase . . . any energy and capacity which is made available from a" QF. 18 C.F.R. § 303(a). Capacity payments can only be eliminated when the utility's need for capacity is zero. Hydrodynamics Inc., 146 FERC ¶ 61,193 P. 35 (2014). When the utility needs capacity, then the payments should be based on the utility's "actual demand for capacity." Id.

Utah law encourages the development of qualifying power production and cogeneration facilities:

> (2) It is the policy of this state to encourage the development of independent and qualifying power production and cogeneration facilities, to promote a diverse array of economical and permanently sustainable energy resources in an environmentally acceptable manner, and to conserve our finite and expensive energy resources and provide for their most efficient and economic utilization.

Utah Code Ann. § 54-12-1(2).

Utah law also requires a capacity component be paid to qualifying power producers.

> The capacity component of avoided costs shall reflect the purchasing utility's long-term deferral or cancellation of generating units which may result from the purchase of power from qualifying power producers.

Utah Code Ann. § 54-12-2(2) (emphasis added).

Rocky Mountain Power's proposal to eliminate capacity payments violates PURPA and Utah law and is inconsistent with how Rocky Mountain Power will actually acquire and maintain capacity resources during the sufficiency period. Specifically, all QFs should be paid for capacity value because Rocky Mountain Power: 1) is planning on significant investments to retain its existing capacity resources; 2) faces uncertainty related to environmental compliance;

and 3) has not demonstrated that it can rely upon market purchases for the entire sufficiency period. In addition, existing and operating QFs should continue to receive a capacity payment because Rocky Mountain Power relies upon their operations to avoid capacity purchases during the sufficiency period.

A. QFs Should Be Paid for the Value of Rocky Mountain Power's Capacity Retentions

Rocky Mountain Power's proposed avoided cost rates under compensate QFs because they do not account for the costs associated with the company's significant planned investments in environmental upgrades to retain its existing coal facilities. These are actual and planned investments that are not included in the company's current Schedule 37 avoided cost rates. Without these upgrades, Rocky Mountain Power would have to secure a large amount of new capacity and energy resources, thereby significantly reducing its period of resource sufficiency. Rocky Mountain Power has identified a number of environmental upgrades at its existing coal facilities in its 2015 IRP that it plans to make before the acquisition of its next thermal resource, including:

- Hayden 1 SCR by Jun 2015
- Jim Bridger 3 SCR by Dec 2015
- Hayden 2 SCR by Jun 2016
- Jim Bridger 4 SCR by Dec 2016
- Craig 2 SCR by Jan 2018
- Naughton 3 Conversion by Jun 2018
- Craig 1 SCR by Aug 2021
- Hunter 1 SCR by Dec 2021
- Jim Bridger 2 SCR by Dec 2021
- Jim Bridger 1 SCR by Dec 2022
- Colstrip 4 SCR by Dec 2022
- Huntington 1 SCR by Dec 2022
- Colstrip 3 SCR by Dec 2023
- Hunter 3 SCR by Dec 2024
- Cholla 4 Conversion by Jun 2025

2015 IRP, Vol. II at 298-299.

In an Oregon Public Utility Commission ("OPUC") investigation into PURPA and QF policies Docket No. UM 1610, the Renewable Energy Coalition and other QF parties have sponsored the testimony of expert witness Kevin Higgins of Energy Strategies. Mr. Higgins estimated the capacity value of only the first six listed environmental upgrades, which resulted in a capacity value of $47.11 per kW-year. Attached to these comments is Mr. Higgins' testimony from the OPUC proceeding, which explains how the capacity value with these environmental upgrades was calculated.

B. QFs May Be an Important Component of Meeting Future Environmental Requirements

Rocky Mountain Power should not discourage the development of renewable and low carbon QFs in the current regulatory environment. QFs not only will provide valuable capacity during the resource sufficiency period, but they could assist the company in meeting many of the possible environment regulations and requirements that it may have in the near future.

PacifiCorp's IRP plans on acquiring a new combined cycle combustion turbine in 2027 or 2028 (2013 IRP Update and 2015 IRP). PacifiCorp's planned resource acquisitions have historically been inaccurate, especially during the longer-term. For example, in 2008 PacifiCorp did not "plan" on acquiring a new thermal resource until 2012. However, PacifiCorp acquired the 520 MW Chehalis plant in 2008.

This extraordinarily long sufficiency period in its current IRPs may be even more inaccurate. PacifiCorp's actual resource acquisitions could significantly change if its IRP assumptions prove to be inaccurate, including but not limited to: 1) changes or adoptions of individual state renewable portfolio standards ("RPS"); 2) PacifiCorp joining the California

Independent System Operator; 3) the adoption of a federal RPS; 4) adoption of a state or federal carbon tax; 5) the adoption of EPA's Section 111(d) rules; 6) closure of part or all of the Colstrip or other coal generation facilities; 7) the inability to capture the high levels of demand side management; and 8) the lack of availability of power in the wholesale market. All of these policies could result in a reduction in coal generation, and an increase in renewables, baseload gas, and peaking gas generation well before 2027.

Rocky Mountain Power's proposal will place little long-term value on QF capacity when the company is challenged by numerous environmental requirements. These requirements, and especially EPA's proposed rules are creating significant uncertainty with respect to the Company's long-term resource plan. The Commission should not signal to these QFs that their capacity has little long-term value when they may be the exact type of resources needed to hedge against and meet future environmental regulations.

C. Rocky Mountain Power Has Not Demonstrated Sufficient Market Liquidity to Rely Upon Front Office Transactions for More than the Next Decade

Over the twenty-year planning period, Rocky Mountain Power's 2015 IRP assumes that it will be able to purchase between 727 and 1,411 MWs from the market, or front office transactions. Rocky Mountain Power has not conducted a robust analysis in its IRP to determine if there will be sufficient market liquidity to enter into these market purchases. For example, the Northwest Power Planning and Conservation Council has estimated an overall Northwest market shortfall, and other utilities are studying the impact of a market shortfall on its operations. The acquisition of electricity from QFs would reduce the need for PacifiCorp to rely upon an uncertain wholesale market.

D. Existing QFs Should Be Paid Capacity During the Resource Sufficiency Period

Existing QFs that renew their contracts should be provided energy and capacity payments during the resource sufficiency period. Rocky Mountain Power plans on existing QFs selling power after the expiration of their contracts, and these QFs help to defer new capacity resources. In other words, without existing QFs renewing their contracts, Rocky Mountain Power would need to acquire new, more expensive capacity resources sooner. As existing QFs provide capacity value by helping to defer the need to buy or build new capacity resources, their avoided cost rates should include both capacity and energy components during the resource sufficiency period.

Other states require utilities to compensate existing QFs that renew their contracts for both the capacity and energy they provide during the resource sufficiency periods. The California Commission addressed contract options for existing QFs with expiring contracts, and provided these QFs with capacity payments in each year of their contract. The Idaho Commission uses an avoided cost methodology similar to Utah that has a resource sufficiency period with energy payments only, and energy and capacity payments when the utility is resource deficient. The Idaho Commission recognized that existing QFs should be treated differently and paid both energy and capacity during the sufficiency period. The Idaho Commission stated:

> By including a capacity payment only when the utility becomes capacity deficient, the utilities are paying rates that are a more accurate reflection of a true avoided cost for the QF power. However, we find merit in the argument made by the Canal Companies that contract extensions and/or renewals present an exception to the capacity deficit rule that we adopt today. It is logical that, if a QF project is being paid for capacity at the end of the contract term and the parties are seeking renewal/extension of

> the contract, the renewal/extension would include immediate payment of capacity. An existing QF's capacity would have already been included in the utility's load resource balance and could not be considered surplus power. Therefore, we find it reasonable to allow QFs entering into contract extensions or renewals to be paid capacity for the full term of the extension or renewal.

Idaho Commission Case No. GNR-E-11-03, Order No. 32697 at 21-22 (2012).

Rocky Mountain Power treats existing small QF contracts as if the contracts renewed, so they will continue over the planning study period. For example, in its 2015 IRP, PacifiCorp is planning on the availability of 255 MWs of QFs to meet its system peak. PacifiCorp 2015 IRP at 62. These QFs are providing capacity value to Rocky Mountain Power in each and every year of the company's sufficiency period.

This reliance also indicates that Rocky Mountain Power delays its commitment to firm resources based on the expectation of contract renewal. This is an appropriate planning principle in which the company avoids the costs of additional firm energy resources. As these are benefits the company and ratepayers obtain, the avoided cost rates for renewed contracts should reflect that new firm resources are, or should be, deferred.

Providing renewing QFs capacity payments would also treat QFs more comparably with utility-owned resources. QF facilities are not provided the opportunity to obtain fixed price contracts for their full resource life and are compensated with lower market prices during the initial years of their original contract. Not providing existing QFs with full avoided cost pricing (including capacity payments) would be inequitable as compared to the treatment afforded utility-owned resources.

As long as the QF was considered a firm resource and the new contract will be a firm contract, then the new contract should be considered as firm contract for its entire duration.

Since existing projects have been part of Rocky Mountain Power's resource portfolio, they should receive full capacity payments during the company's resource sufficiency period.

Wherefore, REC respectfully requests that the Commission reject Rocky Mountain Power's proposed revisions to Electric Service Schedule No. 37 and require them to refile and include the appropriate capacity payments.

DATED this 16th day of July, 2015.

Respectfully submitted,

RENEWABLE ENERGY COALITION

/s/ Brian W. Burnett
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CERTIFICATE OF SERVICE
Docket No. 15-035-T06

I hereby certify that a true and correct copy of the foregoing was served by email this 16th day of July, 2015 on the following:

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