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To: Utah Public Service Commission

From: Utah Division of Public Utilities
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Date: September 9, 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.

DPU Response to the Comments of the Renewable Energy Coalition

The purpose of this memorandum is to provide Division's response to the Comments filed with the Commission by the Renewable Energy Coalition (Coalition) on July 16, 2015. Specifically, the Division will respond to the following assertions and proposals made by the Coalition in its filing:

- To reject the Company's proposed elimination of the capacity payments in Schedule 37.
- To pay qualified facilities (QFs) for the value of Rocky Mountain Power Company's (Company) capacity retention.

- To recognize that QFs are an important component of meeting future environmental requirements.
- To recognize that the Company did not conduct a robust analysis in its Integrated Resource Plan (IRP) to determine if Front Office Transactions (FOTs) can be relied upon.
- To let existing QFs continue receiving capacity payments during the resource sufficiency period.

In its comments the Coalition recommended that the Commission "reject Rocky Mountain Power's proposal to eliminate the capacity payments in Schedule 37." The Coalition claimed that this proposal violates both PURPA and Utah state laws. Neither the portions of the PURPA nor those of Utah state law that the Coalition cited in its comments address the issue at hand. Whether the Company pays the QFs for the energy and capacity they make available is not the issue here. The issue is the appropriate capacity payment during the sufficiency period.

The Company is not proposing to eliminate the capacity payment during the sufficiency period. Rather, it is proposing a capacity payment based on what the Company actually avoids, which are market purchases, not single cycle combined turbine (SCCT) generator. During the sufficiency period, the capacity payments associated with the avoided FOTs are included in the calculation of the avoided costs calculated according to the current Commission approved method.

In its Order in Docket No. 12-035-100, the Commission stated:

> We are persuaded the Proxy/PDDRR method properly reflects avoided capacity costs associated with FOT's (front office transactions) during the period of resource sufficiency. The evidence proffered by PacifiCorp and the Office shows a QF's displacement of FOTs, as determined within the GRID model, result in

> what PacifiCorp would have otherwise paid for capacity purchases. Thus, the inclusion of additional capacity value when a FOT is displaced would over-compensate the QF and violate the ratepayer neutrality objective.

What the Company is proposing is the elimination of the additional capacity payment based on the fixed costs of SCCT. Contrary to the Coalition's claim, keeping this additional measure of capacity would result in definite overcompensation of the QFs.

The Coalition asserted that the Company's proposed avoided costs do not account for the planned investments in environmental upgrades intended to retain its existing coal facilities and therefore under pays the QFs. This claim is based on the assumption that these upgrades are avoidable. However, the Coalition made no attempt to show that these upgrades are avoidable which makes its claim speculative at best.

The Division notes that the environmental upgrades on the Company's coal facilities listed on page 5 of the Coalition's comments are either SCR or a conversion to gas, which are required to comply with the EPA's Regional Haze Rule. The Division also notes that some of these projects are either completed or underway. Therefore, these upgrades are not avoidable.

Attached to the Coalition's comments is testimony submitted to the Public Utilities Commission of Oregon by Mr. Kevin Higgins of Energy Strategies on behalf of the Coalition, Community Renewable Energy Association, Oneenergy, and Obsidian Renewables, LLC. The Division would point out that Mr. Higgin's Oregon testimony also suffers from the same fallacy as the comments provided by the Coalition in this Docket: the Coalition assumes that planned investments in environmental upgrades are avoidable without showing that that is the case.

The Coalition also asserts that some of the 2015 IRP assumptions (e.g. the adoption of EPA's Section 111(d) rules) could change, creating uncertainty with respect to the Company's long term resource plan, and that QFs could hedge against these possible changes. The Division agrees that in the long run everything can change. In fact, the definition of long run, from an economic point of view, is a period of time in which all factors and costs are variable. However, the idea of using QFs to hedge against uncertainty is simply not correct. Uncertainty cannot be measured and therefore you cannot hedge against it. Hedging is a risk management strategy. It is used to offset the probability of loss resulting from certain events taking place. The risk here is the probability of loss. In its comments, the Coalition did not show what the risk is. Rather, the Coalition talked about some uncertain outcomes. Therefore, the Division disagrees with the idea of using QFs to hedge against future environmental regulations or anything else for the matter.

Regarding the Company's reliance on FOTs, the Coalition argues that the Company did not perform an analysis robust enough to demonstrate that there will be sufficient market liquidity to rely on market purchases. However, concern about reliance on market purchases was raised in the 2008 IRP and the Commission directed the Company to include an analysis of the adequacy of the western power market to support the amount of purchases the Company expects to rely on. That analysis is included in Appendix J of the 2015 IRP. While apparently, the Coalition does not consider this analysis robust enough, it does not specify what this analysis is missing to be considered as robust analysis.

The Coalition recommended that existing QFs that renew their contracts should be given energy and capacity payments during the resource sufficiency period. This proposal ignores the fact that avoided costs are dynamic and change with changes in market conditions and in the Company's load and resource balance. In Utah, Schedule 37 avoided costs are updated annually for the changes in circumstances. Any QF seeking a contract with the Company would be compensated at the avoided costs prevailing at the time when the contract is executed, regardless of whether it is a new QF or a QF that is renewing its contract. Therefore, the Division recommends that the Commission reject this recommendation from the Coalition.

CC: Bob Lively, RMP
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