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State of Utah
DEPARTMENT OF COMMERCE
Office of Consumer Services

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To: The Public Service Commission of Utah

From: The Office of Consumer Services
Michele Beck, Director
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Date: September 9, 2015

Subject: Office of Consumer Services Reply Comments. Docket No. 15-035-T06, Rocky Mountain Power's Proposed Revisions to Electric Service Schedule No. 37, Avoided Cost Purchases from Qualifying Facilities

Introduction

The Utah Public Service Commission's (Commission) June 26, 2015 scheduling order in this docket set a deadline of July 16, 2015 for initial comments. On July 16, 2015, the Office of Consumer Services (Office), the Division of Public Utilities (Division) and the Renewable Energy Coalition (REC) filed comments. On July 29, 2015, the Commission issued an amended scheduling order setting a deadline of September 9, 2015 for parties to submit reply comments.

The Office offers the following reply comments which address the comments submitted by the Renewable Energy Coalition on July 16.

Background

In its comments, REC challenges the method used in Utah to set Qualifying Facilities (QF) avoided cost pricing and also challenges the modeling done in PacifiCorp's (Company) Integrated Resource Plan. In the introduction to its comments, REC states: "A capacity payment should be retained for all QFs because they can help Rocky Mountain Power avoid more than just short-term firm purchases." However, REC does not provide any evidence that these hypothetical additional costs meet the Public Utility Regulatory Policies Act (PURPA) and Federal Energy Regulatory Commission (FERC) requirements that these are actual costs the utility avoids and that the ratepayer remains indifferent to QF avoided cost pricing with these adders included.

In addition to the avoidance of short-term firm purchase or front office transactions (FOTs), REC proposes that QFs be given additional compensation based on:

- The Company's planned investments in environmental upgrades for coal powered generating plants.

- The uncertainty of environmental regulation compliance.

In terms of how the Company has prepared its IRP, REC makes the following criticisms of the modeling assumptions:

- The Company has not demonstrated sufficient market liquidity to rely upon FOTs.

- The IRP assumes small QF contracts are automatically renewed which undervalues their capacity contribution to the system.

<u>Office of Consumer Services' Reply Comments to REC</u>

The Office questions whether this is the appropriate forum for REC to raise the issues discussed above. The modeling of small QF avoided cost pricing, i.e. Schedule 37, was recently litigated in Docket No. 14-035-T04 and the 2015 IRP is currently being reviewed in Docket No. 15-035-04. We note that REC did not participate in 14-035-T04 but that REC is listed as a participating stakeholder in the 2015 IRP public input process.[1] However, REC did not raise any of its issues in the Utah IRP docket by filing initial comments – comments which were due on August 25, 2015 or over one month after REC filed comments in this proceeding.

Despite our concern that REC's criticisms of Schedule 37 avoided cost pricing in this proceeding are misplaced, the Office offers the following comments on the issues raised by REC:

- *Additional Compensation to QFs for the Company's Planned Investment in Environmental Upgrades to Coal Plants*

The Office could not find any evidence in REC's comments or in REC's responses to the Office's discovery requests that QFs are enabling the Company to avoid investments in coal plant environmental upgrades. The fundamental question is not whether the Company is incurring costs associated with environmental upgrades to coal plants, but whether QFs can help avoid these investments. To be clear, the only way to avoid these investments is to retire the coal plants early. The 2015 IRP Preferred Portfolio included an additional 816 MW of QFs[2] - coming online in 2015 and 2016. Page 189 of the IRP presents the effects on the portfolio of this large amount of additional QF capacity. The results show that no additional coal plants are retired.

Since QFs do not cause the environmental upgrades to be avoided, PURPA does not allow the cost of these upgrades to be included in QF avoided cost pricing. The Commission must reject this proposed adder to QF pricing.

- *Environmental Compliance Uncertainty*

REC states that QFs should be given additional capacity payments because the Company "faces uncertainty related to environmental compliance"[3]. The Office requested

[1] PacifiCorp 2015 IRP Volume II – Appendix C, page 56.
[2] These are in addition to the QFs that REC references on page 9 of their July 16, 2015 comments.
[3] Bottom of page 4 of REC's July 16, 2015 comments.

clarification from REC on how QFs should be compensated for potential future environmental benefits. In its response to Office Data Request 3.1, REC stated: "REC is not proposing an additional or specific methodology to adjust Rocky Mountain Power's avoided cost rates solely to account for meeting future environmental requirements." The Office agrees that QFs should not receive additional compensation for these speculative costs in Schedule 37 rates. REC's recommendation to compensate QFs for "uncertainty" would run afoul of PURPA and FERC requirements.

- *Insufficient Market Liquidity for FOTs*

The Office has reviewed both the Western Electricity Coordinating Council's (WECC) 2014 Power Supply Assessment used by the Company in the IRP[4] and The Northwest Power and Conservation Council's (NPCC) Pacific Northwest Power Supply Adequacy Assessment for 2020-21 Summary[5] referenced in REC's comments.[6] These two power supply assessments use very different methodologies in their analyses. WECC models supply/demand margins based on the forecasts of monthly peak demands and expected available resources and then compares these margins to a region's desired reserve margin. NPCC models the likelihood of a shortfall, also referred to as a Loss-Of-Load Probability (LOLP), which is an hourly measurement.[7] In its IRP, the Company does not model FOTs as hourly market purchases but rather as an annual 7 day by 24 hour (7x24) product (i.e., a power contract) or a three month 6 day by 16 hour (6x16) product.[8]

In addition, NPCC's assessment does not say there <u>will be</u> a power shortfall in the Northwest as REC claims. To be clear, NPCC's Resource Adequacy Advisory Committee states:[9]

> *"This adequacy assessment is intended to be an early warning should resource and energy efficiency acquisitions not keep pace with load growth. However, an LOLP assessment greater than 5 percent for 2019 and 2021 <u>does not mean that the region has failed to maintain an adequate supply</u>. What it does mean is that some combination of new generating resources and demand-reduction programs are needed to keep up with changing demands and plant retirements. The Council will take up the matter in its next power plan, which is revised every five years. The Council will be working on a revision of the current power plan, <u>which dates to 2010</u>, over the next year."*

As the Office stated in its comments on PacifiCorp's 2015 IRP[10], the Company's conclusion of adequate market liquidity for FOTs based on WECC's annual Power Supply Assessments is a reasonable assumption.

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4 PacifiCorp 2015 IRP Volume II – Appendix J.

5 https://www.nwcouncil.org/energy/powersupply/2015-05/

6 See page 7 of REC's July 16, 2015 comments.

7 See "A New Resource Adequacy Standard for the Pacific Northwest - Council Document Number 2011-14" at http://www.nwcouncil.org/media/30058/2011_14.pdf

8 PacifiCorp 2015 IRP, page 129.

9 http://www.nwcouncil.org/energy/resource/home/, emphasis added.

10 http://www.psc.utah.gov/utilities/electric/15docs/1503504/268760Comments%20from%20OCS%208-25-2015.docx

- *Assumed Renewal of QF Contracts*

REC states in its comments that without existing QFs renewing their contracts, the Company would need to acquire new, more expensive capacity resources sooner.[11] In other words, REC claims that the Company assumes all QF Power Purchase Agreement (PPA) contracts are automatically renewed to be in effect the entire IRP 20-year planning horizon and this may result in artificially lengthening the sufficiency period.

The Office sees some merit in resolving this problem if it actually is an issue. To investigate, the Office requested data from the Company on the 255 MW of QF capacity listed in the 2015 IRP that contributes to system peak.[12] Based on the Company's response to OCS Data Request 2.3 in Docket No. 15-035-04 (the 2015 IRP proceeding), the Company actually assumed that only 58 MW of the 255 MW of QF capacity have PPAs that automatically renew. Furthermore, the average PPA expiration date (weighted by nameplate capacity) from these 58 MW worth of projects (93 total projects) is June 2023. The sufficiency period in the 2015 IRP ends December 2027. This is just 4.5 years past the average end date of these QF PPAs which means that the assumed auto-renewal of just 58 MW[13] of QF PPAs would have minimal impact on the length of the sufficiency period.

The Office believes that the issue of QF contract auto renewal should be investigated in the next IRP cycle but based on our analysis above we do not believe that this issue is materially impacting the calculation of QF avoided cost pricing.

<u>Recommendation</u>

The Office supports broad participation of stakeholders in Commission dockets. However, the Office requests that the Commission require all parties to respect the process and participate in the appropriate proceedings where they provide sufficient evidence in support of their proposals or positions. In this docket, the Commission must not use REC's unsupported criticisms as reason to reject the Company's removal of capacity payments based on a simple cycle combustion turbine (SCCT) during the sufficiency period.

The Office recommends that the Commission reject the changes proposed by the Renewable Energy Coalition in their initial comments because they have not demonstrated that their changes represent costs that are actually avoided and/or because their issues are more appropriately vetted through the IRP process. The Office reiterates its recommendation that the Commission approve this Schedule 37 update as filed.

CC: Chris Parker, Division of Public Utilities
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[11] See page 8 & 9 of REC's July 16, 2015 comments.
[12] Ibid, first full paragraph, page 9.
[13] 58 MW is estimated capacity at system peak. Total nameplate capacity of these 93 projects is 112 MW.