

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

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

DOCKET NO. 15-035-T06

REPORT AND ORDER

ISSUED: September 18, 2015

SYNOPSIS

The Commission approves Schedule No. 37 rates as filed, including the changes to the method for calculating Schedule No. 37 rates proposed by Rocky Mountain Power and supported by the Division of Public Utilities and the Office of Consumer Services.

BACKGROUND AND PROCEDURAL HISTORY

On April 30, 2015, PacifiCorp dba Rocky Mountain Power ("PacifiCorp") filed Advice No. 15-07 ("Application"), requesting approval of proposed revisions to Electric Service Schedule No. 37, "Avoided Cost Purchases From Qualifying Facilities" ("Schedule 37"), of Tariff P.S.C.U. No. 50, with an effective date of July 1, 2015. PacifiCorp filed the Application in compliance with the Public Service Commission of Utah's ("Commission") order in Docket No. 08-035-78¹ requiring PacifiCorp to update Schedule 37 annually, and the Commission's order in Docket No. 12-035-T10² directing PacifiCorp to file the update within 30 days of filing its Integrated Resource Plan ("IRP") or IRP Update, or by April 30 of each year, whichever occurs first. The Application also references the Commission's March 2, 2015 letter in Docket Nos.

¹ See *In the Matter of the Consideration of Changes to Rocky Mountain Power's Schedule No. 135 - Net Metering Service*, Docket No. 08-035-78, (Report and Order Directing Tariff Modifications; February 12, 2009).

² See *In the Matter of Rocky Mountain Power's Proposed Rate Changes to Electric Service Schedule No. 37, Avoided Cost Purchases from Qualifying Facilities*, Docket No. 12-035-T10 (Clarification and Procedural Order; November 28, 2012).

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14-035-55³ and 14-035-T04,⁴ which indicated the next Schedule 37 update would be an appropriate time for the Commission to consider PacifiCorp's proposal regarding continued reliance on a proxy simple cycle combustion turbine ("SCCT") for valuing avoided capacity costs during the period in which PacifiCorp's IRP anticipates meeting PacifiCorp's minimum capacity requirements through market purchases as opposed to building or buying a new generating resource ("Short Run").⁵

Schedule 37 establishes standard prices for purchases of power from Utah-located cogeneration QFs with a design capacity of 1,000 kilowatts or less and small power production QFs with a design capacity of 3,000 kilowatts or less. The rates are based on avoided costs, which are the costs PacifiCorp would incur to serve its native load but for the generation the QF provides. Schedule 37 prices also may be used to evaluate special contracts and form the basis of credits paid under Electric Service Schedule No. 135, PacifiCorp's Net Metering Service tariff. Schedule 37 states that: "[a] cumulative cap of 25,000 kilowatts shall apply to new resources contracted under this schedule."⁶

On May 1, 2015, the Commission issued a Notice of Filing and Comment Period, inviting interested parties to submit comments on PacifiCorp's proposed Schedule 37 changes. On May 13, 2015, Utah Clean Energy ("UCE") filed comments requesting the Commission suspend the previously noticed comment and reply deadlines and hold a scheduling conference

³ See *In the Matter of Rocky Mountain Power's Schedule No. 37, Avoided Cost Purchases from Qualifying Facilities*, Docket No. 14-035-55.

⁴ See *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.

⁵ See Letter to Mr. Jeffrey K. Larsen from the Public Service Commission of Utah, March 2, 2015, Docket Nos. 14-035-55 and 14-035-T04, n. 1.

⁶ Electric Service Schedule No. 37.

to establish additional time and process to address PacifiCorp's proposed tariff revisions. On May 14, 2015, the Commission issued a Notice of Vacated Comment and Reply Deadlines and Scheduling Conference. On May 15, 2015, Cottonwood Hydro, LLC, ("Cottonwood Hydro") provided public comments on PacifiCorp's proposed revisions to Schedule 37.

On May 19, 2015, the Commission held a scheduling conference. On May 21, 2015, the Commission issued a Notice of Technical, Status and Scheduling Conference and Order Suspending Tariff and pursuant to that order, the Commission held a technical, status, and scheduling conference on June 12, 2015. At the conference, PacifiCorp presented its proposed revisions to Schedule 37. Also, in accordance with the agreement of parties at the June 12, 2015 conference, the Commission held a scheduling conference and issued a Scheduling Order ("Scheduling Order") on June 26, 2015.

Pursuant to the Scheduling Order, on July 16, 2015, the Division of Public Utilities ("Division"), the Office of Consumer Services ("Office"), and the Renewable Energy Coalition ("REC") filed comments.

On July 28, 2015, PacifiCorp, the Division, the Office, and Utah Clean Energy ("Parties") filed a joint motion for an order extending the deadline for reply comments and setting a hearing in this docket. The Parties requested that the deadline for reply comments be extended from August 6, 2015 to September 9, 2015, that a hearing be held on September 14, 2015, and that witness lists be filed on September 9, 2015.

On July 29, 2015, the Commission issued an Amended Scheduling Order and Notice of Hearing ("Amended Scheduling Order"). Pursuant to the Amended Scheduling Order, on September 9, 2015, PacifiCorp, the Division, and the Office filed reply comments and witness

lists. Also on September 9, 2015, REC filed a request that the Commission consider its July 16, 2015 comments as unsworn public witness comments pursuant to Utah Administrative Code R746-100-10(F)(1). The Commission grants this request. In its request, REC also stated it would not be sponsoring a witness for the September 14, 2015 hearing.

On September 14, 2015, the Commission convened a hearing to examine PacifiCorp's proposed changes to Schedule 37. At that hearing, the Commission received as evidence PacifiCorp's Application, as well as the comments and reply comments of PacifiCorp, the Division, and the Office. UCE, Cottonwood Hydro, and REC did not appear at the hearing.

PARTY POSITIONS

PacifiCorp

PacifiCorp updated the inputs to the calculation of Schedule 37 rates and represents the method used to develop the proposed changes to Schedule 37 avoided cost prices is consistent with the Commission's orders in Docket Nos. 14-035-55 and 14-035-T04 except for the following proposed changes: (1) on-peak avoided cost rates exclude the fixed costs of an SCCT during the Short Run; (2) avoided energy costs are differentiated into on-peak and off-peak rates based on the relationship of Palo Verde on-peak and off-peak market prices to Palo Verde average market prices, respectively; and (3) avoided energy costs in the Short Run include Front Office Transactions ("FOTs"), as identified in PacifiCorp's 2015 IRP.

PacifiCorp argues the SCCT capacity cost should be removed from the calculation of Schedule 37 avoided costs. During the Short Run, PacifiCorp contends it has no plans to procure

additional thermal capacity resources. Rather, PacifiCorp claims the GRID⁷ modeling of proposed Short Run Schedule 37 avoided costs now includes FOTs that represent short-term firm purchases it plans to make to meet its Short Run capacity needs, as identified in the 2015 IRP. PacifiCorp notes it had not included these FOTs in prior Schedule 37 rates. PacifiCorp claims the avoided cost calculation accounts for a QF's partial displacement of these FOTs and argues inclusion of SCCT fixed costs in the modeling of Schedule 37 avoided cost therefore overstates Short Run avoided costs.

With the elimination of the proxy SCCT capacity costs, PacifiCorp explains its GRID model produces average monthly energy costs in the Short Run that contain no differentiation between on-peak and off-peak costs. To produce on-peak and off-peak Schedule 37 energy rates in the Short Run, PacifiCorp proposes to shape the average monthly avoided energy costs into distinct on-peak and off-peak costs based on the relationship of Palo Verde on-peak and off-peak market prices to Palo Verde average market prices. PacifiCorp testifies this approach is reasonable because it is a straightforward and transparent proxy that is geographically close to Utah.

PacifiCorp argues its proposed changes result in avoided cost prices that better represent the costs it will actually avoid and will eliminate an unnecessary difference between the calculation of avoided costs for small QFs under Schedule 37 and large QFs under Electric Service Schedule No. 38. PacifiCorp provides details supporting its proposed rates in various appendices to its testimony.

⁷ GRID is the acronym for PacifiCorp's system production economic dispatch computer model "Generation and Regulation Initiative Decision Tools."

Division

The Division represents it reviewed PacifiCorp's proposed Schedule 37 rates, concludes the changes proposed are reasonable and comply with Commission orders, and recommends the Commission approve these rates.

The Division argues inclusion of proxy SCCT costs in the Short Run reflects capacity costs PacifiCorp will not actually avoid. Further, the Division argues the Company's analysis shows that Schedule 37 avoided cost prices calculated using the proposed method are less than those calculated using the current method. According to the Division, these results suggest the continued inclusion of SCCT costs would overcompensate QFs. The Division contends continued inclusion of the proxy SCCT costs is contrary to the customer indifference standard of the Public Utility Regulatory Policies Act ("PURPA") and is not in the public interest. The Division also states PacifiCorp's GRID simulation for proposed Schedule 37 rates includes FOTs representative of Short Run capacity purchases that can be avoided through purchases from a QF. The Division believes the use of Palo Verde market prices to shape PacifiCorp's Short Run avoided costs is a reasonable, simple and straightforward approach for differentiating on-peak and off-peak avoided costs.

Office

The Office supports PacifiCorp's proposed changes and recommends the Commission approve the Schedule 37 rates as filed. The Office asserts that since the 2015 IRP does not select an SCCT resource in the Short Run, including SCCT costs would overcompensate QFs for their power. The Office contends PacifiCorp's proposal to remove SCCT costs during the Short Run is proper and in the public interest. The Office also supports the use of Palo Verde market price

differentials to shape PacifiCorp's average avoided costs into distinct on-peak and off-peak costs during the Short Run.

Public Comments

Cottonwood Hydro opposes PacifiCorp's Application because the proposed avoided cost prices are lower than current levels. Cottonwood Hydro argues such a decrease in Schedule 37 avoided cost prices would jeopardize its continued viability. Cottonwood Hydro also asserts Schedule 37 is confusing, misleading, and is biased toward traditional energy producers. Cottonwood Hydro encourages the Commission to reject PacifiCorp's Application and order PacifiCorp to continue paying Cottonwood Hydro at the current Schedule 37 rate.

REC also recommends the Commission reject PacifiCorp's proposed rates. Specifically, REC recommends the Commission retain a full capacity payment for all QFs. REC argues: 1) PacifiCorp's proposed Schedule 37 rates under-compensate QFs because they do not account for the costs associated with PacifiCorp's planned investments in environmental upgrades to retain existing capacity resources; 2) PacifiCorp faces uncertainty related to environmental compliance and QFs could assist PacifiCorp in meeting many of the possible environmental regulations and requirements it may have in the near future; 3) PacifiCorp has not adequately demonstrated that it can rely on market purchases for the entire Short Run; and 4) the proposed rates assume existing QFs renew their contracts but if existing QFs do not renew their contracts, PacifiCorp will need to acquire new, more expensive capacity resources sooner.

In view of these perceived failings, REC contends PacifiCorp's proposed Schedule 37 avoided cost prices are inconsistent with PURPA and Utah law because the proposed rates significantly under-compensate QFs for the capacity value they provide to ratepayers.

Replies to REC Public Comment

In reply comments and at hearing, PacifiCorp and the Office testified REC does not adequately demonstrate the costs it identifies in its unsworn public comments represent costs that PacifiCorp could actually avoid. The Division testified at hearing it found no evidence to substantiate REC's claims and argued the Commission should not adopt REC's recommendations.

DISCUSSION, FINDINGS, AND CONCLUSIONS

In Docket No. 14-035-T04, we found no party provided sufficient evidence to demonstrate the proposed rates adequately captured avoided capacity costs in the Short Run in the absence of proxy SCCT costs. We determined the record in that docket presented no alternative means, aside from the fractional SCCT value, for attempting to capture avoided capacity costs in the Short Run. In other words, it appeared PacifiCorp had removed the mechanism (fractional proxy SCCT costs) for valuing Short Run avoided capacity costs without proposing an alternative means to capture them.

The weight of the evidence before us in this docket suggests PacifiCorp's proposed Schedule 37 method now adequately captures avoided capacity costs in the Short Run without the inclusion of proxy SCCT costs. PacifiCorp has supplemented the method it proposed in Docket No. 14-035-T04 by incorporating FOTs into its GRID modeling. These FOTs are identified as least cost capacity resources in PacifiCorp's IRP. The Division, the Office and PacifiCorp have provided testimony stating the avoidance of these FOTs represents the capacity costs PacifiCorp would have otherwise incurred in the Short Run. No party has provided

evidence to controvert these parties' assertions that avoided FOTs adequately capture avoided capacity costs in the Short Run.

In our January 29, 2015 Order in Docket Nos. 14-035-55 and 14-035-T04,⁸ we found the proposed method for calculating Schedule 37 prices produced identical on-peak and off-peak rates in the Short Run and therefore could not accurately reflect avoided costs. In this docket, PacifiCorp explained that its GRID model is not presently capable of reporting monthly avoided on-peak or off-peak costs. Consequently, the rates the model produces will necessarily understate avoided costs with respect to a QF delivering energy on peak and overstate avoided costs with respect to a QF delivering energy off peak. PacifiCorp's remedy is to shape its monthly avoided costs into on-peak and off-peak avoided costs using, as a proxy, the relationship of on-peak and off-peak prices to average prices at the Palo Verde market hub. Both the Division and the Office testify PacifiCorp's proposal is reasonable because it is transparent and straightforward. Based on the uncontroverted evidence before us, we approve this approach.

In sum, we find the weight of the evidence before us shows that the proposed Schedule 37 rates properly reflect avoided costs, including avoided capacity costs in the Short Run, and are therefore consistent with PURPA and Utah law applicable to QF pricing. We find PacifiCorp's proposed method and rates are reasonable and in the public interest, and we approve the proposed Schedule 37 rates as filed.

ORDER

We approve the Schedule 37 rates as filed, effective immediately.

⁸ See, supra nn. 3 and 4 (Order Partially Addressing Rocky Mountain Power's Petition for Reconsideration, Review or Rehearing of the Commission's December 30, 2014 Order on Review and Motion for Stay, January 29, 2015).

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DATED at Salt Lake City, Utah, this 18th day of September, 2015.

/s/ Thad LeVar, Chair

/s/ David R. Clark, Commissioner

/s/ Jordan A. White, Commissioner

Attest:

/s/ Gary L. Widerburg
Commission Secretary

DW#269340

Notice of Opportunity for Agency Review or Rehearing

Pursuant to §§ 63G-4-301 and 54-7-15 of the Utah Code, an aggrieved party may request agency review or rehearing of this written Order by filing a written request with the Commission within 30 days after the issuance of this Order. Responses to a request for agency review or rehearing must be filed within 15 days of the filing of the request for review or rehearing. If the Commission does not grant a request for review or rehearing within 20 days after the filing of the request, it is deemed denied. 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. Any petition for review must comply with the requirements of §§ 63G-4-401 and 63G-4-403 of the Utah Code and Utah Rules of Appellate Procedure.

CERTIFICATE OF SERVICE

I CERTIFY that on the 18th day of September, 2015, a true and correct copy of the foregoing was served upon the following as indicated below:

By Electronic-Mail:

Data Request Response Center (datarequest@pacificorp.com)
PacifiCorp

Robert C. Lively (bob.lively@pacificorp.com)
Yvonne R. Hogle (yvonne.hogle@pacificorp.com)
Daniel E. Solander (daniel.solander@pacificorp.com)
Rocky Mountain Power

Sophie Hayes (sophie@utahcleanenergy.org)
Kate Bowman (kate@utahcleanenergy.org)
Utah Clean Energy

Brian W. Burnett (brianburnett@cnmlaw.com)
Callister Nebeker & McCullough

John Lowe (jravenesanmarcos@yahoo.com)
Renewable Energy Coalition

Irion Sanger (irion@sanger-law.com)
Sanger Law, P.C.

Patricia Schmid (pschmid@utah.gov)
Justin Jetter (jjetter@utah.gov)
Rex Olsen (rolsen@utah.gov)
Utah Assistant Attorneys General

By Hand-Delivery:

Division of Public Utilities
160 East 300 South, 4th Floor
Salt Lake City, Utah 84111

Office of Consumer Services
160 East 300 South, 2nd Floor
Salt Lake City, Utah 84111

Administrative Assistant