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**BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH**

<p>In the Matter of the Application of PacifiCorp for Approval of an IRP-based Avoided Cost Methodology for QF Projects Larger than One Megawatt</p> <p>In the Matter of Miscellaneous Correspondence and Reports Regarding Electric Utility Services (2012)</p>	<p><b>DOCKET NO. 03-035-14</b></p> <p><b>DOCKET NO. 12-999-01</b></p>
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**Comments of Utah Clean Energy**

**I. BACKGROUND**

In its Report and Order Issued October 21, 2005 in Docket 03-035-14 (*2005 Order*), the Commission established an avoided cost method for valuing energy and capacity acquired from wind Qualifying Facilities pursuant to the Public Utilities Regulatory Policy Act of 1978 (PURPA). In that Order, the Commission concluded,

We approve a market price proxy for determination of avoided costs from Wind QFs up to the Company's IRP target megawatt level of wind resources. The Company's most recent executed wind contract from its Renewable RFP will serve as the proxy against which project specific adjustments are made to produce an indicative price for wind QFs in Utah. . . . For wind resources exceeding the IRP target, wind QF indicative pricing will be based, as it is for non-wind QFs, on the Proxy and PDDRR methods.<sup>1</sup>

<sup>1</sup> Docket No. 03-035-14, In the Matter of the Application of PacifiCorp for Approval of an IRP-Based Avoided Cost Methodology for QF Projects Larger than One Megawatt, *Report and Order* (Issued October 31, 2005), page 33.

On June 29, 2012 Rocky Mountain Power (the Company) filed its Quarterly Compliance Filing in Docket No. 03-035-14—its 2012, second quarter Avoided Cost Input Changes. In it, the Company stated, “Provided as Appendix D is illustrative wind avoided costs calculated using the Proxy and PDDRR method described in the Commission’s order in Docket 03-035-14 dated October 31, 2005, applicable to wind QFs exceeding the IRP target amount of wind. The Company has exceeded the 1,400 MW wind target listed in the October 31, 2005 order and the next deferrable IRP resource is not a wind resource; consequently, ‘wind QF indicative pricing is based, as it is for non-wind QFs, on the Proxy and PDDRR methods used for non-wind QFs.’”<sup>2</sup>

On July 10, 2012, the Commission submitted an Action Request to the Division of Public Utilities for a review of the Quarterly Compliance Filing. Additionally, “In addition to the overall review of this filing, the Commission requests the Division review and provide comments on the appropriateness and relevance of Rocky Mountain Power’s method in determining Illustrative Wind Avoided Costs now that the Company’s owned and contracted wind resources exceed the 1,400 MW wind IRP target identified in the Commission’s October 31, 2005 Order in Docket No. 03-035-14, in light of the current IRP target amount.”

## **II. COMMENTS**

Utah Clean Energy submits these comments<sup>3</sup> in response to the Commission’s Action Request dated July 10, 2012 in Docket No. 12-99-01 (initially due September 10, 2012).

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<sup>2</sup> Rocky Mountain Power, Re: Docket No. 03-035-14—Quarterly Compliance Filing—2012.Q2 Avoided Cost Input Changes (filed June 29, 2012), page 2 (citation to 2005 Order Omitted).

<sup>3</sup> These comments were written before the Commission issued its Order in Docket No. 12-2557-01 (In the Matter of Blue Mountain Power Partners, LLC’s Request that the Public Service Commission of Utah Require PacifiCorp to Provide the Approved Price for Wind Power for the Blue Mountain Project). Docket No. 12-2557-01 deals directly with the same issue upon which Utah Clean Energy is commenting here: the appropriate method for calculating

Specifically, these comments address the appropriateness of the Company's decision to use the avoided cost method applicable to wind QFs *exceeding the IRP target amount*, rather than the method for wind QFs *up to* the IRP target amount. These comments do not address any other aspect of the Company's filing.

Based on the Company's Quarterly Compliance Filing, as well as arguments filed by parties in Docket No, 12-2557-01 (In the Matter of Blue Mountain Power Partners, LLC's Request that the Public Service Commission of Utah Require PacifiCorp to Provide the Approved Price for Wind Power for the Blue Mountain Project), selecting the appropriate method to use for calculating avoided costs for a wind QF is a contested matter that depends upon a review of the Commission's Order in Docket No. 03-035-14 (the 2005 Order). Because it is clear from filings that there is significant disagreement over the intent, findings, and effect of the 2005 Order, Utah Clean Energy will provide a review of relevant structure and substance from the 2005 Order in order to bring more clarity to this issue.

#### **A. Review of 2005 Order**

The Commission begins its discussion, findings, and conclusions regarding avoided cost methodologies with an overview of the issue: the Commission provides a review of the requirements of PURPA; the definition of Qualifying Facility, including eligible facility resource types; the Company's tariff schedules applicable to QF contracts; an introduction to avoided cost calculation methodologies; and a brief discussion of the Company's Integrated Resource Plan and its associated Preferred Portfolio that covers a 20-year planning horizon.<sup>4</sup>

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avoided costs for a wind QF. The Commission's Order in Docket No. 12-2557-01 reaffirmed the *2005 Order* in Docket No. 03-035-14. As Utah Clean Energy believes these comments are wholly consistent with the 2005 Order as reaffirmed in the 12-2557-01 Order, we file them as initially written, without reference to the 12-2557-01 Order.  
<sup>4</sup> 2005 Order at 4-6.

The Commission then indicates that it will resolve the matter of how to determine avoided capacity and energy costs for QFs eligible for pricing under Schedule 38. The Commission notes a distinction between non-wind and wind resources for purposes of calculating avoided costs for QFs and indicates that it will afford unique treatment for wind QFs: “The intermittent characteristic of energy produced from wind facilities introduces issues unique to that type of QF. Therefore, we first address issues regarding QFs excluding wind, then address issues regarding wind QFs.”<sup>5</sup>

Next, the Commission outlines parties’ positions and its conclusions regarding the appropriate methods for calculating both avoided generation capacity costs and avoided energy costs for non-wind QFs.<sup>6</sup> “The Proxy method, based on the next deferrable IRP resource as proposed by the Company and described in this order is approved for calculating avoided generation capacity costs to provide indicative pricing to QFs.”<sup>7</sup> The Commission made note that the “next deferrable IRP resource” in the then current 2004 IRP was a combined-cycle combustion turbine (‘CCCT’) facility, with duct firing, scheduled for service in 2009.<sup>8</sup>

In addition to approving the Proxy method for calculating avoided generation capacity costs, the Commission approved the Partial Displacement Differential Revenue Requirement (PDDRR) method for calculating avoided energy costs.<sup>9</sup> After approving the Proxy and PDDRR methods for calculating avoided capacity and energy costs, respectively, and noting that the next deferrable IRP resource in the 2004 IRP was a CCCT plant with duct firing, the Commission moved on to its discussion of calculating avoided costs for wind QFs.

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<sup>5</sup> 2005 Order at 7.

<sup>6</sup> 2005 Order at 7-14.

<sup>7</sup> 2005 Order at 32.

<sup>8</sup> 2005 Order at 7.

<sup>9</sup> 2005 Order at 13-14.

*Wind QF Avoided Costs.* In determining the appropriate methods for calculating avoided costs from wind QFs, the Commission made a distinction between wind QF resources acquired up to an “IRP target” level of megawatts, and wind QF resources acquired after the IRP target has been reached.<sup>10</sup> With regard to the avoided cost method for wind QFs up to the IRP target, the Commission said, “We are persuaded for the reasons stated by parties . . . that the proxy method best reflects the avoided cost of a wind QF up to the IRP target level of wind resources.”<sup>11</sup>

The proxy method for wind QFs is distinct, however, from the proxy method for non-wind QFs in that the deferrable “proxy” resource for a wind QF is a “market price proxy” for the costs of another wind resource (up to the IRP target), rather than the cost of the next deferrable resource in the IRP. Specifically, the Commission concluded that “the most recently executed RFP contract, prior to the QF’s request for indicative pricing, will serve as the proxy against which project specific adjustments will be made to produce an indicative price for wind QFs in Utah.”<sup>12</sup>

Given that the IRP selects a certain amount of wind in its preferred portfolio, that amount of cost-effective wind becomes the deferrable resource for a wind QF, until the IRP-selected amount of wind (the IRP target) is acquired. The Commission noted that Wasatch Wind testified that “the appropriate deferrable part for a wind QF is the Company’s IRP planned wind resources.”<sup>13</sup> Therefore, although the proxy method for *non-wind* QFs utilizes the next deferrable resource from the IRP (e.g. a CCCT with duct firing), the proxy method for wind QFs

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<sup>10</sup> Cf. Subsection D.1., “Avoided Cost Method for Wind QF Resources up to the IRP Target,” with Subsection D. 2., “Avoided Cost Method for Wind QF Resources Exceeding the IRP Target.” 2005 Order at 18 and 21.

<sup>11</sup> 2005 Order at 20.

<sup>12</sup> 2005 Order at 21.

<sup>13</sup> 2005 Order at 19.

up to the IRP target amount utilizes a market price proxy wind project as the next deferrable plant instead.<sup>14</sup>

The Commission found that for wind QFs up to the IRP target level, the proxy method best reflected avoided costs.<sup>15</sup> Specifically, the Commission stated that the “IRP target level of wind resources is not an annual target, but the cumulative target from the IRP and we decline to limit the use of the proxy method to 200 MW per year.”<sup>16</sup> Further, the Commission stated, “The IRP target amount is defined as an accumulated target, currently 1,400 megawatts, with annual overages and underages rolled forward for the next year.”<sup>17</sup>

After determining that the appropriate method for calculating avoided costs for wind QFs up to the IRP target amount (defined as an accumulated, not annual, target), the Commission moved on to the avoided cost methodology for wind QFs *in excess* of the IRP target. If the IRP target amount of wind has been acquired, it can no longer be used as the proxy, deferrable resource in the market price proxy method, and a new method must be used. Therefore, “once the next deferrable IRP resource is no longer a wind resource, wind QF indicative pricing will be based, as it is for non-wind QF’s, on the Proxy and PDDRR methods used for non-wind QFs . . . with a few distinctions.”<sup>18</sup>

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<sup>14</sup> 2005 Order at 19. Cf. *Rocky Mountain Power, Response of Rocky Mountain Power to Blue Mountain Power Partners, LLC’s request for Agency Action* (Docket No. 12-2557-01, filed August 30, 2012), page 3 (“After considering the testimony and arguments of the parties [in Docket No. 03-035-14], the Commission approved two different avoided cost methods for determining indicative avoided cost pricing for large wind QFs in Utah. The method to be used depended on whether the next deferrable generating resource in the Company’s most recent IRP was a wind resource.”)

<sup>15</sup> 2005 Order at 20.

<sup>16</sup> 2005 Order at 20-21.

<sup>17</sup> 2005 Order at 18-19.

<sup>18</sup> 2005 Order at 22.

In summary, regarding the Commission’s conclusions on avoided cost methodologies for wind QFs:

1. The “IRP target amount” is the cumulative, total amount of wind called for in the Company’s IRP Preferred Portfolio for the 20-year planning horizon.
2. A “market price proxy” method is the appropriate method for determining avoided costs for wind QFs *up to the IRP target amount*.
3. The Company’s most recently executed wind contract serves as the proxy resource against which specific adjustments are made to produce an indicative price for wind QFs in Utah.
4. Once the IRP target amount of wind has been acquired, the most recently executed wind contract no longer serves as the proxy resource, and wind indicative pricing will be based on the Proxy (for capacity costs) and PDDRR (for energy costs) methods, as it is for non-wind QFs.

**B. Response to Action Request**

The Commission has requested comments on the appropriateness of the Company’s decision to calculate wind QF avoided costs as though the 1,400 MW wind target in the 2004 IRP is still the relevant IRP target amount. Based on the Commission’s order, it is clear that the 2004 IRP target amount of wind should not be considered the relevant target for purposes of calculating avoided costs for wind resources. The Commission’s 2005 Order is clear: the “IRP target amount” of wind is an accumulated target, based on the most current IRP, and is not restricted to the 1,400 MW target in effect at the time of the 2005 Order.

The Current IRP is the 2011 IRP, so the IRP target amount should come from it. The 2011 IRP, filed in March of 2011, includes 2,100 MW of new wind additions to be accumulated

within the 20-year planning horizon.<sup>19</sup> The IRP Update (business plan), filed March of 2012, revised this target down by 25 MW over the planning horizon.<sup>20</sup> Therefore, the current IRP target amount is 2,075 MW.

Furthermore, although the Company cites the fact that its next deferrable IRP resource is not a wind resource as a reason for utilizing the Proxy and PDDRR methods for wind QFs in its Compliance Filing, the proxy method found appropriate by the Commission in the 2005 Order for wind QFs should not only be used when the next deferrable resource in the IRP is a wind resource. Rather, the proxy method for wind resources up to the IRP target amount *assumes* that the next deferrable resource is a wind resource, regardless of the next deferrable resource identified in the IRP, because a market price proxy wind resource best reflects the avoided costs of a wind QF up to the IRP target level<sup>21</sup> and is the most appropriate method for meeting the IRP planned acquisition of cost effective wind resources (the IRP target amount).<sup>22</sup>

Therefore, the Company has made two errors with regard to wind QF avoided cost pricing in its Compliance Filing, and has misapplied the 2005 Order. First, the IRP target level of wind resources is not a static MW level set in the 2005 Order based on the 2004 IRP, but rather, it is an accumulated target that includes all the wind additions selected in a given Preferred Portfolio over a 20-year planning horizon and changes as IRP Preferred Portfolios change.

Second, it is not necessary that the “next deferrable resource” in the IRP be a wind resource in order to use the market price proxy method for wind QFs up to the IRP target

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<sup>19</sup> PacifiCorp, 2011 Integrated Resource Plan, Volume 1 (March 31, 2011), page 205 (The 2011 IRP was not acknowledged by the Commission, which found that, in several respects, the 2011 IRP did not comply with the IRP Standards and Guidelines. Docket No. 11-2035-01, In the Matter of PacifiCorp’s 2011 Integrated Resource Plan, Report and Order (Issued March 22, 2012).)

<sup>20</sup> PacifiCorp, 2011 Integrated Resource Plan Update (March 30, 2012), page 45.

<sup>21</sup> 2005 Order at 20.

<sup>22</sup> 2005 Order at 18.



amount. Indeed, when the Commission approved the market price proxy method for the then current 1,400 MW IRP target, the next deferrable resource in the 2004 IRP was a CCCT with duct firing, not a wind resource. The Commission surely did not intend that the market price proxy method be utilized only in the event that that the next deferrable resource was a wind resource. Rather, the point of the market price proxy method is to allow the assumption of a deferrable cost-effective wind resource (up to a specific level—the IRP target) in order to more accurately calculate the avoided costs of a wind QF.

### **C. Recommendation**

Utah Clean Energy recommends that the Commission require the Company to modify its compliance strategy to be compliant with the 2005 Order; that is, the Commission should require the Company to re-file its Compliance Filing in recognition that the “IRP target amount” is the accumulated amount of wind additions from its most current IRP and that the market price proxy method applies to wind QFs up to the IRP target level regardless of the type of the next deferrable resource identified in the IRP.