

Wasatch Wind's Position Statement on Avoided Transmission Losses Docket No. 03-035-14

I. Introduction

The Commission's October 31, 2005 Report and Order in Docket 03-0035-14 approved appropriate methodologies for determining avoided costs for thermal resources and wind resources. With regards to wind, the Commission found that all parties agreed that a Proxy approach was appropriate for determining avoided costs for the IRP planned acquisitions up to 1400 MWs. Only after 1400 MWs of wind resource are acquired, did the Commission find that the PDDRR method was appropriate. The Commission was presented with two choices for a wind proxy, the IRP cost estimate or a market-based proxy. Wasatch Wind argued that the Commission should use both and average the two results. The Commission selected the market-based proxy because it appears to be reasonably accurate, simple and transparent. Parties agreed that project specific adjustment should be made to account for difference in the QF wind profiles. Further the Commission found that transmission capital costs differences and line losses are worthy of consideration in determining an indicative price for wind QF projects. The Commission directed the parties to convene a work group to recommend a method to identify the costs, savings and timing of these avoidable transmission costs for QFs.

II. The Working Group Process

The Division convened the work group and it met only four times. The first meeting on November 9th was an organization meeting and the Company described its FERC tariff requirements for providing transmission costs estimates to any party that requests interconnection. The Company stated its intent to use its transmission interconnection model as the method for determining avoided transmission costs. The second meeting, November 14th, the Company provided its proposal for determining avoided transmission capital costs and line losses for thermal QF projects. Discussion during this meeting revealed a flaw in this method. The interconnection model only uses a forecast of five years and does not include any IRP resources in its resource base. Thus the model is inconsistent with the IRP which uses a ten year horizon and includes IRP planned resources. This model is not capable in its current configuration of calculating avoided transmission costs associated with a displaced or deferred IRP resource because it is impossible to defer or displace something that is not in the model. The Company does not recognize this inconsistency with PURPA's intent or that it is inconsistent with its own IRP. The Company did not propose a specific transmission adjustment for wind QFs citing a need to study the matter more. In the third meeting, November 16, the Company announced that consideration of transmission line losses were not warranted for wind and that transmission capital costs would be determined by its transmission interconnection model. Company personnel indicated that the wind projects would most likely be refused an adjustment for avoided transmission costs unless the project could provide assurances of reliability, a requirement that will prove difficult for an intermittent resource. The Company's rationale for refusing consideration of transmission line losses for wind was that line losses were not explicitly contemplated in the RFP process and

thus are not included in the RFP contract price. Hence, no adjustment is required. In the fourth meeting on November 19, Pioneer Wind, Mountain West Consulting and Wasatch Wind presented their proposals for transmission adjustments to the proxy method.

The time period to work out an agreement was very short and a consensus of opinion on how to incorporate transmission avoided costs into indicative pricing could not be obtained. It is Wasatch Wind's opinion that additional time would be necessary and that participation by Commission staff would be helpful. We do not believe that the Commission has the requisite amount of information to make a definitive conclusion on this issue.

III. Wasatch Wind Proposal for Determining Avoided Transmission Costs and Associated Line Losses

A. Avoided Transmission Capital Costs

With the caveat that this issue deserves more study, Wasatch Wind proposes the following adjustment for transmission capital costs. If the last executed RFP contract resulted in no additional transmission upgrades or accommodations that were paid for by the Company then no additional transmission adjustment for the QF would be contemplated. However, if the Company and its ratepayers did incur transmission costs to accommodate the RFP project then those costs could be avoided through a QF purchase and therefore should be added to the QF contract price. The incremental transmission costs incurred to support the RFP project should be calculated on a MWH basis for the RFP resource and added to the indicative price for the QF. The Company stated that it rarely incurs transmission costs that are not paid by the party interconnecting so it is anticipated that this adjustment will be rare. However, it is important that the Commission explicitly allow the opportunity for such adjustments in order to prevent gaming by the contracting parties.

B. Avoided Transmission Line Losses

Wasatch Wind believes that transmission line losses can be avoided through purchases from QF wind projects. Transmission losses are associated with the transport of energy, not capacity, along transmission lines. Energy is lost as heat as it travels along transmission and distribution lines. The losses are correlated to the distance traveled. Other variables, to a lesser extent, contribute to transmission line losses, but generally the greater the distance the greater the line losses. In order to precisely calculate line losses a comprehensive analysis will have to be made of the line losses associated with the RFP proxy resource and then compare it to the line losses of the QF project. At a minimum one must determine how far the RFP resource is from PacifiCorp's load and compare it to the location of the QF wind project and its location to PacifiCorp's load. Some parties argued that an hour by hour analysis should be made to know the precise resource that is associated with the line loss. For example if the QF resource is displacing a Wyoming

coal facility, it would have greater avoided line losses than a resource such as Gadsby. The Company believes that it can possibly model such line losses on a case by case basis but that the administrative burden is enormous. Furthermore, it claims that such adjustments are unnecessary.

Wasatch Wind believes that a line loss adjustment is warranted and will accept a case by case comparison of the QF project with the then recognized market proxy. However, given that the market proxy is expected to change with every new RFP contract and that the Company expects to sign 1400 MWs over the next several years, a simpler more expedient measure might be appropriate. Wasatch Wind proposes a simplified adjustment that will be simple and equitable. If the QF is located within the Wasatch transmission bubble then it receives a transmission line loss credit equal to the FERC tariff system average line loss estimate. Distribution line losses will only be considered if the QF interconnects at a distribution voltage level. QF wind facilities outside the Wasatch Transmission bubble will have no adjustments to indicative pricing unless the Company can show that delivery of power from this facility will entail significant line losses.

IV. General Comments

The working group process did not work effectively in this instance. Some parties argued that the Commission's order was ambiguous and that further adjustments to indicative pricing derived from the market proxy were unnecessary. This put the group in an adversarial environment that was not conducive to negotiations or understanding. The Company's argument that transmission line losses do not exist for a wind project because it is an intermittent resource defies physical laws. Further to argue that line losses are not appropriate simply because RFP contract negotiators do not have an explicit line item for transmission line losses seems to contradict good business judgment. The Company should consider line losses when negotiating any contract. For the Company to argue that a wind project located within the bubble will not have any impact on relieving transmission constraints in Wasatch load pocket, a load center that has declared on numerous occasions as one of the most transmission constrained areas in all of its jurisdictions simply does not pass the smell test. Common sense dictates that transmission line losses should at a minimum be considered.

What is not appropriate is to summarily dismiss this adjustment. The Commission explicitly stated it was worthy of consideration. (See page 21 of the Order) Parties stated that QF wind projects won big with this recent order and additional revenues are not warranted. The Commission may or may not be cognizant of the fact that over 6000 MWs of wind power was bid into the RFP of which the Company accepted one bid of less than one percent of the total. Thus QF wind projects are competing with the top 1% of all wind projects that were contemplated by the Company. If a QF project helps the company avoid line losses and can help relieve the transmission constraints in the Wasatch front then such benefits should be reflected in the indicative pricing. To ignore such benefits will violate ratepayer neutrality and hurt ratepayers in the long run. Wind projects located within the Wasatch transmission bubble will provide transmission

benefits and will at times allow for the importation of cheaper power from outside the bubble. It will avoid line losses as it will displace resources that would need to be imported from outside the Wasatch bubble. In order to maintain equity and insure ratepayer neutrality some adjustment must be made for transmission line losses.