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MEMORANDUM

To: Utah Public Service Commission

From: Utah Division of Public Utilities
Artie Powell, Interim Director
Energy Section
Abdinasir Abdulle, Technical Consultant
Jamie Dalton, Utility Analyst II
Charles Peterson, Technical Consultant

Date: February 5, 2008

Ref: Docket No. 03-035-14. Quarterly Compliance Filing – Avoided Cost Input Changes

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RECOMENDATIONS

The Division has reviewed the PacifiCorp's Quarterly Avoided Cost Compliance filing and recommends that going forward, the Company should:

1. include in its filing a detailed explanation, when appropriate, about what has prompted the changes in the load forecast and how the forecast changed.

BACKGROUND AND DISCUSSION

In an order in Docket No. 03-035-14 dated October 31, 2006, the Commission ordered Rocky Mountain Power:

> To keep a record of any changes, including data inputs, made to the Proxy and GRID models used in this case. The Company shall notify the Commission and Division of any updates they make to the models used in the approved Proxy and PDDRR methods

In compliance with the above Commission Order, On November 28, 2007, RMP filed its Quarterly Compliance – Avoided Cost Input Changes. In an action request dated November 28, 2007, the Commission requested that the Division review these updates and report its findings to the Commission by January 28, 2008, which later extended to February 5, 2008. This memo contains the Division's review of RMP's Quarterly Compliance Filing dated November 28, 2007.

After reviewing the updates contained in the compliance filing, the Division concluded that all of the six update items are reasonable updates. However, some of the updates need to be clarified.

Market Capacity

The market capacity data series have been updated to include the most current information available. It is often assumed that the Company can buy and sell as much power as they want at any point in time. However, during the graveyard hours, when the Company has excess power to sell, the Company cannot sell all such power as there is no demand for it. Consequently, the Company set a limit for the amount of power they can expect to sell during those hours. This limit is set at the average sales for those hours over the last 48 months. Therefore, the Company updated the market capacity limit to reflect the average market capacity for the most recent 48 months ending June 30, 2007. The Division believes that this represents a reasonable update.

Economic Displacement Threshold

In the earlier version of GRID (release 6.1), there was a concern regarding the commitment logic. Based on the commitment logic, the most economic resource will be dispatched at any given hour. The issue with GRID release 6.1 was that it may dispatch a resource with a capacity greater than could be handled by the transmission system. To remedy this problem, the economic displacement threshold has been adjusted to 435MW, the average nameplate of Current Creek. The Division believes that this is a reasonable update.

West Ready Reserve Transfer Cap

The Company operates in two control areas, each control area is separate and independent. The Company's western side control area has abundant hydro resources and often has extra reserves. The Company's eastern control area has less hydro reserves and meets reserve requirements using higher cost thermal resources. The Company is allowed by NERC to transfer up to 100 MW of ready reserves from the west side control area to the east side control area.

The ready reserve cap modeling in this filing is consistent with the modeling in the prior compliance filing and the Utah general rate case filing docket 07-035-93.

Partial Displacements

In the compliance filing, August 3, 2007, the Division expressed a concern about the size of the avoided cost resources and recommended that the Company use 100 MW avoided cost resources for all its future filings.[1] In this compliance filing the Company has updated its avoided cost methodology by including the 100 MW avoided cost resource.

In the last compliance filing, the Division also expressed concern about the use of potential resources in the avoided cost methodology. The Division’s concern is reproduced here from the Division’s memorandum data August 3, 2007, for the convenience of the reader.

> Though the inclusion of the potential resources is not part of the Commission approved methodology, the Company decided to include it in recognition of the fact the first QF that asks for indicative price is expected to replace the most expensive IRP resource, the second QF will replace the second most expensive IRP resource, and so on and so forth. Therefore, it is fair to give the first QF that asks for an indicative price a higher price than the second and to give the second QF higher price than the third, and so on

[1] For a discussion on the basis for this recommendation, refer to the Division’s August 3, memorandum, Docket No. 03-035-14.

and so forth. This necessitated that the Company put the QFs that asked for indicative prices in a queue. Thus when a proposed QF asks for an indicative price, this price will be calculated with the assumption that all the QFs that came before it signed a contract and are treated as existing. This makes sense to the Division except that there is no limit as to how long a QF can be in the queue without actually signing a contract unfairly pushing prices down to the QFs that walked in the door after it. Currently, the Division is working on a criterion to determine whether a particular QF in the queue is making a significant progress towards signing a contract. The Division may submit its recommendation on this issue in its memo for the next quarterly filing.

In a meeting with the Division and the Committee on November 27, 2007, the Company indicated that any QF that walks in and asks for an indicative price will be put in the queue and will remain in the queue as long as they are actively negotiating. However, when a QF gets to the point of actually signing a contract, the price that will be quoted to them will not consider any QF in the queue. That is, the price calculated will be as if it were the first in the queue. Therefore, the Division believes that in as long as the length of the queue will not affect the actual price that a QF signing a contract will get, the inclusion of the potential resources into the formula will have no adverse effect. It is just a way to recognize that the first QF will replace the most expensive resources and the second QF will replace the second most expensive resource and so on so forth.

Load Forecast

In its memorandum dated August 3, 2007, the Division expressed concern regarding the fact that the Company did not provide any justification for the changes it made in the forecasts and recommended that going forward, the Company should include in its filing a detailed explanation about what has prompted the changes in the forecast and how the forecast changed. The core of the Division's concern is that these forecasts will be used to develop indicative prices for new QFs that may come in the door. Therefore, the

Division recommends that the Company follow the Division's recommendation in its memorandum dated August 3, 2007 regarding load forecast. For convenience that recommendation is reproduced here:

> "The Company should include in its filing a detailed explanation about what has prompted the changes in the forecast and how the forecast changed."

CONCLUSION

The Division reviewed the reasonableness of all of the other modifications to the Proxy and GRID models. The Division, therefore, concludes that the Company's proposed input updates are reasonable and are in compliance with the Commission's reporting requirement.

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