

BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH

In the Matter of the Advice Filing No. 11-06, Annual Update for Schedule 37 Avoided Cost Purchases From Qualifying Facilities (QF)	DOCKET NO. 11-035-T06
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**COMMENTS OF UTAH CLEAN ENERGY AND
WESTERN RESOURCE ADVOCATES
July 28, 2011**

Introduction. Utah Clean Energy and Western Resource Advocates (UCE/WRA) respectfully submit the following comments regarding PacifiCorp’s June 28, 2011 Advice Filing 11-06 Schedule 37 Avoided Cost Purchases from Qualifying Facilities (QF). Schedule 37 applies to wholesale energy sales to Rocky Mountain Power from projects less than or equal to 3 MW in size; nevertheless, these comments are also relevant to a broader discussion of avoided costs, including those calculated for Schedule 38 (QFs greater than 3 MW).

The reserve margin used by PacifiCorp in its June 28, 2011 filing to determine its load and resource balance is not consistent with the planning reserve margin used for determining the load and resource balance in the 2011 IRP, filed March 31, 2011. Because of the significant impact of the assumed reserve margin on the determination of resource sufficiency and insufficiency, the avoided cost method applied, and the resulting avoided costs, UCE/WRA recommend that the Commission direct the Company to refile its avoided costs using the planning reserve margin that is consistent with the 2011 IRP.

Additionally, UCE/WRA recommend the Commission reconsider the method used to determine the capacity component of short-run avoided costs. Finally, we identify areas we believe require further explanation and/or documentation on the part of the Company and recommend that the Commission direct the Company to provide that information.

PacifiCorp’s Load and Resource Balance calculation is inconsistent with its IRP. The Commission’s June 18, 1992 Report and Order on Standards and Guidelines in docket No. 90-2035-01 states that the IRP will be used to review avoided cost calculations. The order in Docket 03-035-T10 explains that rates paid to qualifying facilities are “based on avoided costs developed from the Company’s integrated Resource Plan.”¹

¹ Docket No. 03-035-T10 Order, issued June 1, 2004 at 1-2.

In its December Order in Docket No. 09-035-T14, the Commission provided the following explanation of the link between the Company's IRP load and resource balance and its calculation of avoided costs:

The Company's load and resource plan developed in conjunction with the Company's IRP, and updated for known changes, is the basis for determining the periods of resource sufficiency and deficiency. Accordingly, the Company must include in its filing the load and resource plan it uses to develop its proposed avoided costs. The load and resource balance plan must be presented in sufficient detail to demonstrate the proposed periods for resource sufficiency and deficiency are consistent with the Company's most recent IRP or IRP update.²

Footnote 3 of the same order indicates that PacifiCorp witness, Rodger Weaver testified in Docket No. 94-2035-03 that the load and resource balance developed for the IRP and updated for known changes is the basis for the load and resource balance to be used for determining avoided cost.³

In that order, the Commission directed the Company to "label Table 1 [load and resource balance] with the *applicable planning reserve margin assumption* (e.g. 12 or 15 percent) in all subsequent filings of Schedule 37 rates."⁴

In the 2010 schedule 37 docket (Docket 10-035-T07) and again in this filing, the Company used an operating reserve margin, which is a subset of a planning reserve margin, rather than using the full planning reserve margin to calculate its load and resource balance. The following explanation is provided:

The purpose of Table 1 is to demonstrate when the Company is short on resources after meeting all obligations including operating reserves, which are seven percent for thermal resources and five percent for hydro and wind resources. Therefore, the planning reserve margin assumed in Table 1 is equal to the operating reserve margin.⁵

This issue was not addressed in Docket 10-035-T07. In its recommendations to the Commission regarding the Company's Schedule 37 tariff filing in Docket 10-035-T07, the Division noted items of inconsistency between the filed IRP and avoided cost filing but did not comment on the use of the operating reserve margin in place of the planning reserve margin. The Company refiled its avoided costs incorporating the changes recommended by the Division. In an advice letter to the Company, the Commission approved the tariff without addressing

² December 14, 2009 order in docket 09-035-T14 at page 6 (footnote omitted).

³ December 14, 2009 order in docket 09-035-T14 at page 6, note 3.

⁴ December 14, 2009 order in docket 09-035-T14 at page 7; *see also* Advice Filing 11-06, Appendix 2 at Page 2 Of 2 (emphasis added).

⁵ Advice Filing 11-06, Appendix 2 Page 2 of 2.

whether the Company's approach to equating planning reserves with operating reserves is appropriate.

As part of the 2011 IRP, PacifiCorp undertook a loss of load study to determine its appropriate planning reserve margin. The results of the Loss of Load Study indicate 13% is an appropriate planning reserve margin to be used in determining the load and resource balance.⁶

However, the Company did not apply the 13% IRP planning reserve to its load obligation for purposes of calculating the avoided costs it filed June 28, 2011. Instead, the Company again calculated the load and resource balance using the current operating reserve requirement (5% of hydro resources and 7% of thermal resources), and it appears to have assumed no reserve obligation for purchased power, thereby, understating its resource need as compared with the use of a 13% planning reserve margin.

When operating reserve requirements are used to calculate the Company's load and resource position, the Company is resource sufficient in the short-run (2011-2014) and resource deficient in the long-run (2015 and beyond). However, if a 13% planning reserve margin is applied to the Company's load obligations, the Company is both energy and capacity deficient beginning in 2011. Such a result changes the appropriate analysis for calculating avoided costs and will affect the avoided cost calculation.⁷

UCE/WRA therefore recommend that the Commission direct the Company to refile using a 13% planning reserve margin to calculate its load and resource balance.

UCE/WRA recommend the Commission reexamine the approved method for calculating short run avoided capacity costs. In its filing in this docket, the Company describes the Commission-approved method for calculating short-term avoided capacity costs:

Capacity costs in [the short run] are based on capacity purchases for the number of months that the company is capacity deficit. For example, if the company is capacity deficit for five months in a given year, the purchases would be for five twelfths of the year and the annual value shown in Table 3 [Capitalized Energy Costs] would be five twelfths of the capacity cost of a simple cycle combustion turbine.⁸

Using the Company's example of a five month capacity deficit, the current method takes the costs of a single cycle combustion turbine (SCCT) and then uses 5/12s of the capacity cost of this resource to estimate avoided capacity costs. The logic is that the Company is only capacity deficit in the short run during five summer months and therefore should only pay 5/12s of the

⁶ UCE/WRA take no position in these comments regarding the correctness of this calculation.

⁷ The method utilized for determining avoided costs when resources are sufficient is the differential revenue requirement method and was developed in Docket No. 94-2035-03. The method for determining avoided costs when resources are deficient was developed in docket No. 94-2035-03 and modified in Docket No. 03-035-T10.

⁸ Advice Filing 11-06 Appendix 2 at Page 3 of 4.

annual capital costs of an SCCT. This method, and the Company's description of it, raises several questions.

The first question is whether this method contemplates that the Company will build an SCCT or buy capacity on the market. If the Company must build a resource to provide capacity, then it must build and pay for an entire resource, not five twelfths of a resource. Therefore, the full cost of the resource should be included in the evaluation.

If the Company plans to buy capacity on the market, then the method does not take into account variations in market price between peak and off-peak periods. This methodology undervalues the market price of peak capacity. Peak capacity during times of heavy load is more expensive than capacity in non-peak periods. In other words, the average value of twelve months of capacity, divided by five months, is less than the average value of the five most expensive (peak) months. It seems unlikely that the Company can buy five months of peak capacity for the same amount as five twelfths of the annual levelized cost of an SCCT.⁹

In addition to the issues raised above we have the following additional questions.

There is a large difference between the SCCT fixed costs (in Table 3, column D, rows 12 through 15) in 2011 and the rest of the years (out to 2014). In 2011, the SCCT fixed costs (in \$/kW-yr) are \$29.40 while in the other years the costs are around \$70. A small table below Table 3 lists the number of months of capacity payments in each year between 2011 and 2014. In 2011, there are three months of capacity payments, while in each subsequent year there are seven.

Using the short-run capacity cost calculation method, only 3/12ths of the SCCT capacity costs are included in the avoided cost calculation as compared to 7 months for years 2012

⁹ This situation is somewhat analogous to on- and off-ski-season condominium rentals. On-season rentals during the winter are usually twice as expensive as off-season rentals in summer, fall, and spring. (For example, the rental rates for Park City's Resort Property Management for their Bookridge condominium are \$700 per night during the winter months of December, January, February, March, and parts of April, while the summer months April 15th – December 15th are \$325 per night. The "super peaks" during the ski season, during Christmas and Presidents Day week are \$1,200 per night.) Furthermore, occupancy rates are much higher during the ski season than the off-season. Using 5/12s of the capacity cost of an SCCT is akin to assuming that the cost of renting a ski condominium during peak periods, i.e., the five month ski season, would be equal to five months of mortgage payments for the entire year.

In finance theory, the value of any asset is the present value of all future cash flows that the asset will produce. The value of the condominium is the discounted value of the cash flow from nightly rents. Most of the costs of renting a ski condo will be collected during the winter months. Thus, use of the condo during peak (on season) periods is more valuable than use during the off season. Monthly mortgage payments are simply levelized costs and are constant over the life of the mortgage. If a condo owner were to charge just the mortgage payment during the winter months, she would not be able to collect enough money during the off season to pay her mortgage.

through 2014. If the 3 months are used because the analysis for 2011 starts in July of 2011, we contend that the calculation significantly undervalues capacity costs and it raises further questions about the appropriateness of the method. The 3/12ths calculation leads to a very low capacity price. In the company's filing Third Revision of Sheet 37.3 for the year 2011 it shows a capacity price of \$2.45/kW-month. This is less than half of the value of the capacity price for years 2012-2014. However, there is no information in the spreadsheet or other appendices regarding when the Company is short on peak in 2011. We therefore cannot evaluate the legitimacy of the much lower 2011 fixed costs. We request that the Commission direct the Company to refile and include in that refiling the monthly information regarding capacity deficit for all years.

It is unclear how natural gas hedging costs are included in the natural gas price forecasts. It is also unclear how natural gas transportation costs are allocated between energy and capacity.

We question the applicability of utilizing an avoided cost methodology that incorporates base-load high capacity resources, 12 hour off and on peak blocks, and a simple summer and winter delineation as a proxy to assess the value of low capacity resources, such as solar, which provide energy during summer months during the day.