

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of the compliance filing to the)
February 12, 2009 Order in Docket No. 08-)
035-78 on Net Metering Service, the Utah) DOCKET NO. 11-035-T06
Commission directed the Company to)
“update the avoided cost pricing in Schedule)
No. 37 annually, concurrent with the) ORDER
approval and establishment of rates for)
larger commercial and industrial customers)
based on the FERC Form No. 1 method.”)

ISSUED: December 14, 2011

SHORT TITLE

**Update of Electric Service Schedule No. 37 Rates
for Power Purchases from Qualifying Facilities.**

SYNOPSIS

The Commission approves Schedule No. 37, “Avoided Cost Purchases from Qualifying Facilities” rates.

By The Commission:

INTRODUCTION AND PROCEDURAL BACKGROUND

On June 28, 2011, PacifiCorp, dba Rocky Mountain Power (“Company”), filed proposed changes to Electric Service Schedule No. 37, “Avoided Cost Purchases from Qualifying Facilities” (“Schedule 37”), of Tariff P.S.C.U. No. 47, with a requested effective date of July 28, 2011. This filing was made in response to the Public Service Commission of Utah’s (“Commission”) February 12, 2009, Report and Order Directing Tariff Modification in Docket No. 08-035-78¹ requiring the Company to update Schedule 37 annually. In this filing the Company updates the rates for known and expected changes to system costs.

Schedule 37 establishes standard prices for purchases of power from Utah-located cogeneration Qualifying Facilities (“QFs”) with a design capacity of 1,000 kilowatts (“kW”) or less and small power production QFs with a design capacity of 3,000 kW or less. The rates are based on avoided costs developed from the Company’s Integrated Resource Plan² (“IRP”). Avoided costs are costs the Company would incur to serve its native load “but for” the generation provided by the QFs. Schedule 37 prices may also be used to evaluate special contracts, demand side resource programs and form the basis of credits paid under Electric Service Schedule No. 135, the Company’s Net Metering Service tariff.

On June 30, 2011, the Commission requested the Utah Division of Public Utilities (“Division”) to investigate and review the proposed changes. On July 21, 2011, the Division

¹ Docket No. 08-035-78, “In the Matter of the Consideration of Changes to Rocky Mountain Power’s Schedule No. 135 - Net Metering Service.”

² The Company’s 2011 IRP was filed with the Commission on March 31, 2011 and is currently under review.

requested an extension of time, until July 28, 2011, for its review. Based upon the Division's request, on July 27, 2011, the Commission issued an Order suspending the tariff filing pending further investigation by the Division and comment from interested parties. On July 28, 2011, the Division filed its review and recommendations. Also on July 28, 2011, Utah Clean Energy and Western Resource Advocates ("UCE/WRA") filed joint comments on the Company's Schedule 37 proposal. On September 21, 2011, the Company filed responsive comments to the issues raised by UCE/WRA.

On October 31, 2011, the Commission issued an Order ("October Order") directing the Company to file supplementary information within 14 days to address issues raised in this docket. On November 14, 2011, the Company filed its response to the October Order including a request for approval, effective December 14, 2011, of updated tariff sheets 37.3 and 37.4, Attachment A - Response to the Commission's October Order, Attachment B – Tables 1 through 11 representing the Company's avoided cost calculation spreadsheet, and Confidential Attachment C, the Company's Loads and Resource Balance Study (collectively referred to as "Revised Filing").

On November 16, 2011, the Commission issued an action request to the Division to review the Revised Filing and make recommendations to the Commission by December 7, 2011. On December 7, 2011, the Division filed comments on the Company's Revised Filing recommending approval of the changes to Schedule No. 37 as filed by the Company.

DISCUSSION, FINDINGS AND CONCLUSIONS

Our October Order directed the Company to file supplemental information to address issues raised in this docket. We limit our discussion, findings, and conclusions herein to these issues and the Schedule 37 rates proposed in the Revised Filing.

Linkage between 2011 IRP Load and Resource Plan and Schedule 37 resource deficiency period.

In the October Order, we directed the Company to provide a direct link between the load and resource plan in the 2011 IRP and the period of resource deficiency identified in the Schedule 37 avoided cost rates. According to the Company, the energy load and resource balance differs between the Schedule 37 filing and the IRP for two reasons. First, it includes the updated assumptions described in its initial filing. Second, the Company explains it uses two different approaches in quantifying the energy available from natural gas-fired resources. Specifically, in the IRP approach, the annual energy contribution from natural gas-fired resources is based on plant operation at full capacity after adjusting for planned and unplanned outages. In contrast, under the Schedule 37 approach, the annual energy from natural gas-fired plants is based on the level they are forecast to be operationally committed in the Generation and Regulation Initiative Decision (“GRID”) model, which, according to the Company, results in a lower energy contribution. The combined effect of updated assumptions and different natural gas plant modeling approaches results in a 3-year difference in the timing of the Company being energy deficient as compared to the 2011 IRP. Thus, the Company is energy sufficient in Schedule 37 until 2014 rather than 2017, as reflected in the IRP.

The Division, in their December 7, 2011, responsive comments, agrees with the Company's explanation of the energy load and resource balance differences between the IRP and Schedule 37.

Basis for including or excluding planning reserves in the calculation of short-run avoided energy costs.

The October Order directed the Company to explain the basis for including or excluding planning reserves in the calculation of short-run avoided energy cost. In its Revised Filing, the Company explains its GRID modeling of short-run avoided energy costs includes operating reserves, regulating margins, and thermal derates in an amount equivalent to approximately 1,311 megawatts or about 12.8 percent of system obligation. According to the Company, this is roughly equivalent to the 13.0 percent planning reserve margin included in the IRP. The Company contends this approach is consistent with the method authorized by the Commission under Schedule 37 and argues inclusion of planning reserve margins beyond GRID-modeled reserve and deration assumptions would result in the double-counting of reserves.

In its December 7, 2011, responsive comments, the Division supports the Company's calculation and states the Schedule 37 short-run avoided energy cost calculations include planning reserves. The Division finds such reserves are consistent with the IRP planning reserves.

The Company's response clarifies this issue and shows that the Schedule 37 approach, despite the computational differences, results in reserves in an amount essentially equivalent to the planning reserve margin included in the IRP. We therefore accept this approach for Schedule 37 filings.

Valuation of peak and off-peak avoided energy costs during resource sufficiency period.

In our October Order, we noted the Company provides in Table 2 the results of the short run avoided energy costs calculated through GRID. We also noted these values, i.e., the GRID results, are labeled as off-peak and treated as off-peak avoided energy costs throughout the period of resource sufficiency. We sought clarification regarding whether these values actually contain average monthly avoided energy costs for all hours, and, if so, whether the Company's filed rates may understate on-peak avoided energy costs and overstate off-peak avoided energy costs. We directed the Company to respond to this issue and make corrections as necessary in the supplementary filing.

In its Revised Filing, the Company simply contends that, consistent with its previous Schedule 37 filings, this filing correctly applies the Commission approved methodology with regard to peak and off-peak avoided energy costs. It provides no additional data or information from which this contention can be substantiated. The Division does not address this issue.

However, in reviewing its short-run avoided capacity cost calculation, the Company discovered an error. The capacity calculation for the six-month period, July 2011 through December 2011 does not reflect that the capacity payment is paid over a six-month period rather than 12 months. This change is reflected in the Revised Filing and increases the proposed 2011 avoided cost, assuming an 85 percent capacity factor, from \$36.77 per megawatt-hour to \$40.65 per megawatt-hour and raises the 20-year levelized price from \$64.01 per megawatt-hour to \$64.36 per megawatt-hour. The Company requests approval of these revised

rates. The Division reviewed the Company's calculations and also recommends approval of the corrected rates.

We accept the Company's corrections. However, we find this information does not fully address our question regarding off peak avoided energy costs. We continue to question whether the Company's calculation of avoided energy costs in the period of resource sufficiency accurately represents the distinction between total avoided energy cost (shown in Table 5, column b) and off-peak energy prices (shown in Table 6, column e) in the short run period. The Company's filing shows no distinction between the two values. We note, however, the filing does reference the source of these data as being determined by GRID which is the accepted analytical tool for modeling such values. Consequently, for purposes of this filing we accept the Company's data. We will address our additional question in this area through a technical conference prior to the Company's next Schedule 37 filing. Further, additional questions and clarification regarding the approved method can be discussed at that time.

Capacity deficits during the resource sufficiency period.

In our October Order, we directed the Company to provide information regarding capacity deficits for all years during the resource sufficiency period. The Company responded by providing Confidential Attachment C ("Loads and Resources") which is a detailed load and resource balance during the resource sufficiency period. Attachment C details estimates of total Company requirements, resources, and energy balances before and after reserves on a granular level. This attachment also shows the number of months for which there is a capacity deficit during the period 2011 through 2014 and ties back to the annual estimated resource surplus or

deficit in terms of annual average energy, summer (July) peak, and winter (January) peak, as found in the Company's original filing.

The Division contends Attachment C provides a detailed presentation of the resource deficiency periods identified in the Company's filing. The Division indicates this information adequately addresses our request regarding this issue. We agree with the Division's assessment.

We find with the corrections and explanations provided herein, the Company's proposed rates in its Revised Filing are reasonable and we therefore approve them.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED, that:

1. The avoided cost rates contained in PacifiCorp's application to change rates for Electric Service Schedule No. 37, P.S.C.U. Tariff 48 dated November 14, 2011, are approved. The effective date of the approved rates shall be the date of this order.
2. The Company shall submit to the Commission the appropriate tariff sheets for Electric Service Schedule No. 37 which reflect the decisions made herein within one week of the date of this Order. The Division shall review the revised sheets and supporting information for compliance with this Order and provide its recommendation to the Commission within one week of the filing of the Company's revised tariff sheets and supporting information.

DOCKET NO. 11-035-T06

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DATED at Salt Lake City, Utah, this 14th day of December, 2011.

/s/ Ted Boyer, Chairman

/s/ Ric Campbell, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Julie Orchard
Commission Secretary
D#212196