

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of Rocky Mountain Power's)
Proposed Rate Changes to Electric Service) DOCKET NO. 12-035-T10
Schedule No. 37, Avoided Cost Purchases) CLARIFICATION AND
from Qualifying Facilities) PROCEDURAL ORDER
)

ISSUED: November 28, 2012

By The Commission:

On June 29, 2012, 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. 48, with a requested effective date of July 29, 2012. The proposed changes were filed pursuant to the Public Service Commission of Utah's ("Commission") February 12, 2009, Report and Order Directing Tariff Modification in Docket No. 08-035-78¹ ("February 2009 Order") requiring the Company to update Schedule 37 annually, for rates to be effective July 1.

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 Plan ("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.

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

On July 30, we issued an order suspending the Company's Schedule 37 filing. In reviewing the Company's proposed rates and the Division's responsive comments, we observed a possible inconsistency with our approved method for calculating avoided costs. In particular, we questioned the timing of the next deferrable resource which the Company identified as occurring in 2020. This appeared to be at odds with the Company's most recently filed IRP Update² wherein the Company identifies the need for an additional resource in the 2016 timeframe. This was also contrary to the Company's request for proposals for a resource to be acquired in the 2016 timeframe approved in Docket No. 11-035-73.³ Neither the Company nor the Division addressed this discrepancy in the timing of additional resource requirements which identify the period of resource deficiency and use of the proxy plant method for calculating avoidable energy and capacity costs.

On August 2, 2012, the Commission issued an Action Request directing the Division to investigate the timing of the next deferrable resource and to determine how this is consistent with the Schedule 37 method which requires the avoided cost calculation to be based on a load and resource plan developed in conjunction with the Company's IRP.⁴

On August 30, 2012, the Division filed its response to this Action Request. In its comments, the Division states:

“... the Company explains that the Schedule 37 avoided cost calculations and the IRP, while somewhat related, are different in important ways. For instance, the

² The Company's 2011 IRP Update was filed with the Commission on March 30, 2012.

³ See Docket No. 11-035-73, “In the Matter of the Application of PacifiCorp, by and through its Rocky Mountain Division, for Approval of a Solicitation Process for an All-Source Resource for the 2016 Time Period.”

⁴ See Direct Testimony of Rodger Weaver, Docket No. 94-2035-03, at 3-13.

avoided cost calculations are based upon energy sufficiency or deficiency only, and are based upon the Company's hourly dispatch model (GRID).^[5] The IRP's focus is on capacity sufficiency and does not use GRID in its analyses. The avoided cost methodology does not estimate the timing of the next new resource. Based upon the Company's 2011 IRP Update, the next resource acquisition is still expected in 2016."⁶

Further the Division concludes:

"Based upon the Company's response to the issue presented by the Commission, the Division believes that the updates to the inputs of the avoided cost calculation are reasonable and the avoided cost prices are calculated according to the Commission approved methodology."⁷

On November 6, 2012, a duly-noticed technical conference was held to allow the Division to further explain its August 30, 2012, response to the Commission's August 2, 2012, action request. The Commission also invited the Company to similarly respond to the Commission's inquiry.

At the technical conference, both the Division and the Company affirmed their positions that the Schedule 37 avoided cost calculations and the IRP, while somewhat related, are essentially different, and assert that this difference is required by the method. The Company reiterated its contention that the Schedule 37 loads and resource study is not intended to determine the selection or deferral of new resources, but rather, when updated for known changes, is the basis for determining the periods of resource sufficiency and deficiency. According to the Company, resource deficiency occurs when the load and resource study indicates the system is both capacity and energy short. Thus, the Company argues, the resource sufficiency and deficiency results produced under the Schedule 37 approach may differ from

⁵ Generation Regulation Initiative Decision production cost model.

⁶ Division of Public Utilities, August 30, 2012, Action Request Response, at 3.

⁷ Id., at 4.

those periods identified within the IRP approach. The Company indicates further variance may occur due to modeling differences between GRID and the IRP models regarding the energy availability of natural gas-fired resources.

DISCUSSION, FINDINGS AND CONCLUSIONS

We understand the current discrepancy regarding the timing of a deferrable resource concerns the development of the Company's load and resource plan and the criteria for determining a deferrable resource. Specifically, the question is whether the IRP or the Company's current production cost model should be the basis for determining the timing of resource deficiency and therefore the starting point for the proxy plant method for calculating long-run avoided energy and capacity costs.

The method adopted in 1995, as described by the Company's witness at that time, includes a fairly lengthy discussion of the development of the load and resource plan used for calculating Schedule 37 avoided energy and capacity costs. We observe this discussion refers to the Company's IRP report and process rather than the Company's production dispatch model.

Specifically, the load and resource plan is developed "using the techniques, criteria and resource portfolio described in the [IRP] report as updated for known changes."⁸ Further, the "resultant load and resource plan is used to identify periods of resource sufficiency (i.e., no additional deferrable resources are needed to meet forecasted capacity and energy needs) and to identify the potentially avoidable resources when new resources are required."⁹ The Company further states it will use the differential revenue requirements method for calculating avoided energy costs during the period of resource sufficiency and the proxy plant method for

⁸ Direct Testimony of Rodger Weaver, Docket No. 94-2035-03, at 4.

⁹ Id., at 6.

calculating the cost of purchasing summer capacity during the period of resource sufficiency and for calculating both avoided energy and capacity costs during the period of resource deficiency. Citing various IRP action plan items, the Company witness discusses resources which are not deferrable. Up to this point, the Company witness does not discuss use of its production cost model for determining the load and resource balance or determining the deferrable resource. Only after the discussion regarding the load and resource balance and identification of a deferrable resource does the Company witness explain that it will use its production cost dispatch model, then called PD-Mac, now called GRID, to calculate avoided energy costs during the period of resource sufficiency using the differential revenue requirement method.

The Company and Division now explain the Company is using the GRID model, rather than “using the techniques, criteria and resource portfolio described in the [IRP] report...” to determine the periods of resource sufficiency and deficiency, as noted earlier, and the Company has interpreted this to be the correct procedure for some time. Until the instant case, these two analytical approaches produced essentially the same result and therefore the potential for conflict between the two was not apparent. In order to avert unintended consequences from such conflicts and to preserve the intended simplicity and transparency of the method, we provide the following clarification and procedural guidance.

We will rely on the Company’s IRP process and the Company’s planned actions as articulated in its IRP or IRP update action plans as the basis for identifying the type and timing of a deferrable resource and therefore the time period in which the proxy plant method will be used to calculate energy and capacity payments for Schedule 37 during the period of resource deficiency. This is consistent with the intent of the method as described by the

Company witness at the time the method was approved. It is in the IRP process the Company develops its resource plan to minimize long-run capacity and energy cost considering available alternatives, risks and uncertainty. The GRID model has no such capability and only simulates expected operating costs.

Further, we will rely on the IRP process in assessing the type and timing of a deferrable resource regardless of whether an IRP or IRP update is acknowledged. We do so because we intend to rely on the Company's stated plans for resource procurement in order to satisfy the Public Utility Regulatory Policy Act requirement that QF payments be equal to the costs the Company would incur but for the generation provided by the QFs. In appropriate proceedings the Company will defend its actions as prudent, regardless of whether an IRP is acknowledged as meeting our IRP standards and guidelines. Reliance on the IRP process will also ensure the IRP is used to review avoided cost calculations as required by our IRP standards and guidelines.¹⁰

Relying primarily on the IRP process and the Company's concomitant plans for the period of resource deficiency also has the advantage of simplicity and transparency. IRPs and updated action plans are reviewed by regulators and interested parties during specified comment periods wherein adequate time is provided for such review. Changes in the type and timing of resource additions can vary and require more time for review than is typically intended in the Schedule 37 process. This will help prevent the Schedule 37 review process from becoming a more complex, mini-IRP proceeding.

¹⁰ See June 18, 1992, Report and Order on Standards and Guidelines in Docket No. 90-2035-01, "In the Matter of Analysis of an Integrated Resource Plan for PacifiCorp."

The Company should continue to update its IRP load and resource plan for known and measurable changes for calculation of avoided energy costs in the period of resource sufficiency, and for determination of the number of months during the resource sufficiency period in which the Company is capacity short and intends to purchase short term capacity in the market. Nothing in the present clarification changes this process. Simply, when there is a conflict between the two analyses regarding the timing of a deferrable resource, the type and timing of the next deferrable resource included in the Company's most recently filed IRP action plan will govern.

For procedural efficiency, we direct the Company to file annual Schedule 37 proposed rates within 30 days of the filed date of its IRP or IRP update, which is approximately April 30. This process will ensure proposed Schedule 37 rates are reviewed in time for an effective date of July 1 as required by our February 2009 Order.

ORDER

NOW, THEREFORE, IT IS HEREBY ORDERED, that:

1. The Company shall refile its proposed Schedule 37 rates consistent with the clarification provided in this Order.
2. The Company shall file future annual proposed rates for Schedule 37 within 30 days of filing its IRP or IRP Update or by April 30 of each year, whichever occurs first.

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DATED at Salt Lake City, Utah, this 28th day of November, 2012.

/s/ Ted Boyer, Chairman

/s/ Ric Campbell, Commissioner

/s/ Ron Allen, Commissioner

Attest:

/s/ Gary L. Widerburg
Commission Secretary
D#239441

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 28th day of November, 2012, a true and correct copy of the foregoing CLARIFICATION AND PROCEDURAL ORDER was served upon the following as indicated below:

By Electronic-Mail:

Data Request Response Center (datarequest@pacificorp.com)
Dave Taylor (dave.taylor@pacificorp.com)
PacifiCorp

By Hand-Delivery:

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Administrative Assistant