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Division of Public Utilities

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ACTION REQUEST RESPONSE

To: Public Service Commission

From: Division of Public Utilities
Chris Parker, Director
Artie Powell, Manager
Abdinasir M. Abdulle, Technical Consultant
Charles Peterson, Technical Consultant

Date: June 17, 2013

Re: 13-035-63 (03-035-14), Quarterly Compliance Filing – 2013.Q1 Avoided Cost Input Changes

RECOMMENDATION (Acknowledgement)

The Division of Public Utilities (“Division”) has reviewed the Rocky Mountain Power’s (“Company”) Quarterly Compliance filing for the first quarter of 2013 filed on April 16, 2013. The Division recommends that the Commission acknowledge the Company’s first quarter filing as in compliance with the Commission’s Orders in Docket No. 03-035-14.

ISSUE

On April 16, 2013, the Company filed its Quarterly Compliance Filing – 2013.Q1. This filing reports changes since Company’s 2012.Q4 quarterly compliance dated December 28, 2012. On January 10, 2013, the Commission issued an Action Request to the Division requesting a review of the Company’s filing for compliance and to make recommendations. The Commission asked the Division to report back by May 16, 2013. On May 15, 2013, the Division requested an extension of the due date of the Action

Request to June 15, 2013, which the Commission subsequently granted . This memorandum represents the Division's response to the Commission's Action Request.

DISCUSSION

Based upon Commission Orders in Docket No. 03-035-14 dated October 31, 2005 and February 2, 2006, the Company is required to provide quarterly updates of its avoided cost indicative pricing that highlights any changes to the inputs and provides generic pricing that could be used as general guidance to prospective owners of qualifying facilities (QFs) regarding the prices that the Company would be currently offering for new contracts.

In compliance with these Commission Orders, the Company filed with the Commission its Quarterly Compliancy for 2013.Q1 on April 16, 2013. The Division reviewed and checked the accuracy and reasonableness of the calculations in the Company's filing. The Division noted that the Company has made updates to some of the inputs to its model since its 2012-Q4. These updates include:

1. Using the Company's Official Forward Price Curve (December 2012);
2. Using an Average and Incremental Coal Costs Study based on forecast dated January 2013;
3. Incorporation of the Needs Assessment;
4. Removal of High Plateau, Lower Ridge, Mule Hallow, and Pine City wind QFs from the long term contracts;
5. Updating the regulatory margins; and
6. Other modeling updates.

Regarding the changes in the average and incremental coal cost study, the Company previously used an average coal cost study, dated July 24, 2012, that was based on the Company's 10-year Business Plan forecast, thereafter escalated at 2.5%, and an incremental coal cost study dated October 2011. For 2013.Q1, the Company developed a coal price forecast which was used throughout the whole 20-year study period. The Division did not review this coal price forecast and, therefore, cannot comment on its appropriateness. However, based on additional information that the Company provided to the Division, this change will reduce the avoided cost by 12 cents on a 20-year nominal levelized basis.

The 2012.Q4 update used the 2010 wind integration study to calculate the regulation margin. This has been updated to use most current wind integration cost currently filed as a supplement to the 2013 IRP. The Division is currently reviewing the 2013 IRP including the wind integration study. The Division cannot comment on the appropriateness of this wind integration study until it concludes its review of this study. However, based on additional information provided by the Company, the updated integration study reduces the wind integration cost by 53 cents per MWh. The 53 cents per MWh reduction is net of the adjustments made to convert the 2012.Q2 compliance filing period (2013-2032) to the current compliance filing period (2014-2033).

Overall, the input changes made by the Company between this compliance filing and the 2012.Q4 filing reduces avoided cost prices on a 20-year nominal levelized basis by approximately 26 cents per MWh. This overall impact is based on the Company's sequential introduction of the updates in the calculation. Hence, the incremental impact of each change from the prior step would change if the sequence is changed.

The Division believes that the Company properly documented the input changes to the avoided cost calculations and overall the updates appear reasonable.

Based upon its review, the Division believes that the updates to the inputs of the avoided cost calculation are generally reasonable and the avoided cost prices are calculated

according to the Commission approved methodology. Therefore, the Division recommends that the Commission acknowledge the Company's Quarterly Compliance Filing.

CC: Dave Taylor, RMP
Michele Beck, OCS