



State of Utah  
Department of Commerce  
Division of Public Utilities

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## ACTION REQUEST RESPONSE

To: Utah Public Service Commission  
From: Utah Division of Public Utilities  
Chris Parker, Director  
Energy Section  
Artie Powell, Manager  
Abdinasir M. Abdulle, Technical Consultant  
Charles Peterson, Technical Consultant  
Date: October 14, 2014  
Re: Docket No. 14-035-40 – Rocky Mountain Power Quarterly Compliance Filing – 2014.Q2 Avoided Cost Input Changes

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### RECOMMENDATIONS (Acknowledge)

The Division of Public Utilities (“Division”) recommends that the Commission conditionally acknowledge Rocky Mountain Power’s (“Company”) quarterly compliance filing – 2014.Q2 avoided cost input changes – as generally complying with the Commission Order in Docket No. 03-035-14. Depending on the Commission’s decision in Docket 14-035-T04, the Division recommends that the Company file in its next quarterly update pricing reflecting alternative treatment of potential environmental costs. .

### ISSUE

On August 22, 2014, the Company filed its Quarterly Compliance Filing – 2014.Q2. This filing reports changes since the Company’s 2014.Q1 Quarterly Compliance filing dated April 8, 2014. On September 9, 2014, the Public Service Commission (“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 September 22, 2014. The Division asked for and the Commission granted an extension of the deadline to October 14, 2014. This memorandum represents the Division's response to the Commission's Action Request.

## **DISCUSSION**

Based upon Commission Orders dated October 31, 2005 and February 2, 2006, in Docket No. 03-035-14, the Company is required to provide quarterly updates of its avoided cost indicative pricing, highlighting any changes made to the Proxy and GRID models that are used to calculate Schedule 38 avoided costs.

In compliance with these Commission Orders, the Company filed with the Commission its quarterly report for the 2014.Q2 on August 22, 2014. The Division reviewed and checked the accuracy and reasonableness of the calculations in the Company's filing. The Division believes that the Company properly documented the input changes to the avoided cost calculations. Based on our review, the Division concludes that the updates appear reasonable.

The Division notes that the Company updated several inputs to its model since the 2014.Q1 update filing. These updates include:

- 1) Updating the Official Forward Price Curve (Gas and Market Prices) and the inflation rate to the Company's most recent study dated June 2014.
- 2) Updating the Long-term contracts to be consistent with the Company's most recent Official Forward Price Curve.
- 3) Excluding the potential environmental costs from the Company's most recent Forward Price Curve, fuel costs and plant commitment and dispatch decisions.
- 4) Updating short term firm transactions to reflect those contracts executed as of July 2014.
- 5) Other modeling updates.

Overall, the input changes made by the Company between this compliance filing and the 2014.Q1 filing *decreases* avoided cost prices on a 20-year nominal levelized basis by approximately \$5.83 per MWh. This decrease represents the cumulative impact of all the

changes made by the Company. The incremental impact of each change from the prior step will depend on the order in which the changes are introduced into the model.

However, in reviewing the Company's filing the Division noted that the exclusion of the potential environmental costs (carbon tax) from the Company's most recent Forward Price Curve, fuel costs and plant commitment and dispatch decisions is a controversial change and may be premature. The issue of carbon tax is being litigated in Docket No. 14-035-T04 - In the Matter of Rocky Mountain Power's Proposed Revisions to Electric Service Schedule No. 37, Avoided Cost Purchases from Qualifying Facilities. The Commission has not yet issued its Order in Docket No. 14-035-T04, but it is expected in the near future. It is the Division's understanding that the Company will in its third quarter update include impacts from the EPA's proposed rule, which may render the elimination of the carbon tax moot. Depending on the Commission's decision in the Schedule 37 docket, the Commission may want the Company to include in its third quarter update pricing to reflect both a CO2 tax and the EPA proposed rules. The Division will address this issue in the Company's Q3 Avoided Cast Input Changes when the Company files or in another proceeding established by the Commission.

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. The Division believes that the exclusion of the carbon tax from the methodology may be premature given the controversy regarding its exclusion. The Division believes that the pending Commission Order in Docket No. 14-035-T04, will affect the avoided cost calculations for Schedule 38.

CC: Dave Taylor, RMP  
Michele Beck, OCS