

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

In the Matter of Rocky Mountain Power’s)
Schedule No. 37, Avoided Cost Purchases) DOCKET NO. 14-035-55
from Qualifying Facilities)
)
In the Matter of Rocky Mountain Power’s) DOCKET NO. 14-035-T04
Proposed Revisions to Electric Service)
Schedule No. 37, Avoided Cost Purchases) REPORT AND ORDER
from Qualifying Facilities)
)

ISSUED: October 21, 2014

SYNOPSIS

The Commission approves Schedule 37 rates as filed, including the changes to the method for calculating Schedule 37 rates proposed by Rocky Mountain Power and supported by the Division of Public Utilities and the Office of Consumer Services. The Commission directs PacifiCorp to file a possible adjustment to the Schedule 37 method that produces distinct peak and off-peak rates in the resource sufficiency period, by April 30, 2015, or its next Schedule 37 rate update, whichever is sooner.

BACKGROUND AND PROCEDURAL HISTORY

On May 7, 2014, PacifiCorp, dba Rocky Mountain Power, (“PacifiCorp”) filed Advice No. 14-04, in Docket No. 14-035-T04 captioned above, requesting approval of proposed revisions to Electric Service Schedule No. 37, “Avoided Cost Purchases From Qualifying Facilities” (“Schedule 37”), of Tariff P.S.C.U. No. 49. Advice No. 14-04 was filed in compliance with the Public Service Commission of Utah’s (“Commission”) order in Docket No. 08-035-78¹ requiring PacifiCorp to update Schedule 37 annually, and the Commission’s order in Docket No.

¹ See, *In the Matter of the Consideration of Changes to Rocky Mountain Power’s Schedule No. 135 - Net Metering Service*, Docket No. 08-035-78, (Report and Order Directing Tariff Modifications; February 12, 2009).

12-035-T10² directing PacifiCorp to file the update within 30 days of filing its Integrated Resource Plan (“IRP”) or IRP Update, or by April 30 of each year, whichever occurs first. On April 29, 2014, the Commission granted PacifiCorp’s request for a seven-day delay, extending the filing date to May 7, 2014, in Docket No. 14-035-55 captioned above.

The proposed revisions include updates to the rates for known and expected changes to system costs and adjustments to the rates for consistency with the Commission’s August 16, 2013, order in Docket No. 12-035-100 (“Schedule 38 Order”).³ That order establishes the method used for determining avoided costs for Qualifying Facilities (“QF”) served under Electric Service Schedule No. 38 (“Schedule 38”).

Schedule 37 establishes standard prices for purchases of power from Utah-located cogeneration QFs with a design capacity of 1,000 kilowatts or less and small power production QFs with a design capacity of 3,000 kilowatts or less. The rates are based on avoided costs developed from information contained in PacifiCorp’s IRP. Avoided costs are costs PacifiCorp would incur to serve its native load but for the generation provided by the QF. Schedule 37 prices also may be used to evaluate special contracts and form the basis of credits paid under Electric Service Schedule No. 135, PacifiCorp's Net Metering Service tariff. Schedule 37 states that a cumulative cap (“Cap”) of 25,000 kilowatts (“kW”) shall apply to new resources contracted under the schedule.

² See, *In the Matter of Rocky Mountain Power’s Proposed Rate Changes to Electric Service Schedule No. 37, Avoided Cost Purchases from Qualifying Facilities*, Docket No. 12-035-T10 (Clarification and Procedural Order; November 28, 2012).

³ See, *In the Matter of the Application of Rocky Mountain Power for Approval of Changes to Renewable Avoided Cost Methodology for Qualifying Facilities Projects Larger than Three Megawatts*, Docket No. 12-035-100, (Order on Phase II Issues; August 16, 2013).

On June 3, 2014, the Commission held a scheduling conference and on June 5, 2014, issued an Order Setting Schedule and Suspending Tariff and Notices of Technical Conference and Hearing (“Scheduling Order”). The Commission’s June 5, 2014, order invited interested parties to submit comments regarding the application of the Cap during the time period between the time the Cap is met but prior to the Commission’s decision regarding PacifiCorp’s proposed revisions to Schedule 37. The Scheduling Order also allowed parties to file direct and rebuttal written testimony in advance of a September 16, 2014, evidentiary hearing.

Pursuant to the Scheduling Order, the Division of Public Utilities (“Division”) filed comments regarding the interim application of the Cap on June 11, 2014, and the following parties filed comments regarding the interim application of the Cap on June 12, 2014: PacifiCorp; the Office of Consumer Services (“Office”); Utah Clean Energy (“UCE”); and SunEdison, LLC and First Wind (“SunEdison/First Wind”). PacifiCorp, the Division, and SunEdison/First Wind filed reply comments regarding the interim application of the Cap on June 19, 2014.

On June 25, 2014, the Commission held a technical conference to allow PacifiCorp to present its proposed revisions to Schedule 37. On July 3, 2014, the Commission issued an Order on Cumulative 25,000 kW Cap (“July Order”) affirming the validity of the 25 megawatt (“MW”) cap on payments for power PacifiCorp procures via contracts with qualifying facilities (“QF”) based on approved Schedule 37 pricing, until the Commission makes a final determination in this docket. Additionally, this order provided for the continuation of Schedule 37 pricing for QFs with design capacities of 100 kW or less. The July Order established an interim pricing process for QFs with design capacities greater than 100 kW up to and including

three MWs for small power production facilities and up to and including one MW for cogeneration facilities.

Pursuant to the Scheduling Order, PacifiCorp filed direct testimony on July 11, 2014. On August 12, 2014, the Division, the Office, and UCE filed direct testimony. On August 29, 2014, PacifiCorp, the Division, the Office, and UCE filed rebuttal testimony, and Kennecott Utah Copper LLC and Tesoro Refining & Marketing Company LLC (“Kennecott/Tesoro”) filed comments in lieu of rebuttal testimony. SunEdison, LLC (“SunEdison”) also filed comments. On September 16, 2014, the Commission convened a hearing to examine PacifiCorp’s proposed changes to Schedule 37. Also on September 16, 2014, joint public comments were filed by a group of 12 local businesses, and two public comments were filed.

PARTY POSITIONS

Proposed Schedule 37 Changes

PacifiCorp proposes the following changes to the method for calculating Schedule 37 rates: (1) include integration costs for wind and solar QFs; (2) reduce solar avoided capacity costs by the resource’s capacity contribution; (3) eliminate the option for a QF to be paid a separate rate for its capacity and energy; (4) exclude the capacity costs based on a simple cycle combustion turbine (“SCCT”) during the period in which PacifiCorp has sufficient resources to meet its energy requirements; and (5) remove the assumed future taxes on carbon dioxide (“CO₂”) from the official forward price curve (“OFPC”) used in the avoided cost calculation.

Wind and Solar Integration Costs

PacifiCorp argues the adjustments for wind and solar resource integration costs approved in the Schedule 38 Order also should apply to the development of avoided costs in

Schedule 37. PacifiCorp testifies the Schedule 38 Order applies a wind integration cost that is consistent with PacifiCorp's wind integration study, and applies solar integration charges of \$2.83 per megawatt hour ("MWh") for fixed solar resources and \$2.18 per MWh for tracking solar resources.

PacifiCorp argues it is unreasonable to apply different standards for wind and solar QFs on Schedules 37 and 38. PacifiCorp does not believe there is a difference in integration requirements related to the size of the resource or between transmission and distribution voltage levels. PacifiCorp asserts it needs to integrate load, which occurs primarily at the distribution level. Therefore, PacifiCorp claims intermittent resources at the distribution level require integration, just as intermittent resources would at a transmission level. PacifiCorp states these costs are excluded from the Schedule 37 method and argues if no adjustment is made to account for the costs to integrate Schedule 37 intermittent resources, retail customers will bear these costs in violation of the Public Utility Regulatory Policies Act of 1978 ("PURPA") ratepayer indifference standard.

The Division and the Office agree with PacifiCorp's proposal to include integration costs in the Schedule 37 avoided cost calculation. The Division argues failure to include such costs would cause ratepayers to subsidize Schedule 37 QFs. Both the Division and Office argue that including these costs ensures consistency with the calculation of Schedule 38 avoided costs per the Commission's Schedule 38 Order.

UCE argues wind and solar integration costs should not be included in Schedule 37 rates because PacifiCorp presents no analysis or findings showing the integration costs for Schedule 37 QFs result in the same integration costs as larger Schedule 38 QFs. UCE argues the

solar integration charges approved in Schedule 38 are not based on analysis and are speculative, interim costs based on Schedule 38 wind integration charges. UCE contends “[u]ntil there is evidence supporting the actual integration costs of small QFs, *and* until there is some way of offsetting these costs with benefits (as is available to large QFs under Schedule 38), the Commission should not consider changing Schedule 37 pricing to include integration charges.”⁴ UCE asserts that treating all QFs the same regardless of size would effectively discriminate against small QFs by imposing unwarranted costs leading to a result that does not maintain ratepayer indifference.

UCE asserts that inclusion of integration costs without also including allowances for avoided transmission capital costs and energy losses is inconsistent with the Schedule 38 method and does not provide an accurate account of both costs and benefits that small QFs provide to the transmission system.

PacifiCorp argues there is no connection between the application of integration charges and adjustments for transmission costs. PacifiCorp claims the primary determinant in crediting a QF for avoided transmission losses is the facility’s proximity to PacifiCorp’s loads. According to PacifiCorp, if a QF is remotely located from load, it does not reduce transmission losses. PacifiCorp contends the vast majority of QFs requesting Schedule 37 service have been solar facilities located in southern Utah. PacifiCorp asserts Schedule 38 QFs located in southern Utah do not receive a credit for avoided transmission losses.

⁴ Direct Testimony of Sarah Wright, pp. 7-8, lines 138-141.

Reduce Capacity Costs to Reflect Capacity Contribution of Solar QF Resources

PacifiCorp argues the capacity contribution values adopted for solar resources in the Schedule 38 Order should be applied to the avoidable capacity costs in the Schedule 37 pricing. PacifiCorp also requests updating the capacity contribution for wind resources, noting that a capacity contribution adjustment already is approved for wind resources in Schedule 37. PacifiCorp proposes applying a 68 percent capacity contribution for fixed solar resources, an 84 percent capacity contribution for tracking solar resources, and updating the value for wind resources from a 20 percent to a 20.5 percent capacity contribution.

The Division, the Office, and UCE support the application of PacifiCorp's proposed capacity contribution values to Schedule 37 rates to recognize the unique characteristics of certain renewable resources.

Eliminate the Capacity and Energy Rates Payment Option

Schedule 37 provides two payment options and posts distinct rates for each payment option: 1) The capacity and energy rates payment option⁵ and 2) the time differentiated energy rates payment option.⁶

⁵ Under the capacity and energy rates payment option, separate rates for the QF's capacity and energy are posted and the QF receives a fixed monthly payment for its capacity and a variable energy rate for power delivered based on these rates. Wind resources receive 20 percent of the capacity rate to ensure no overpayment due to the low capacity factor of the resource. *See In the Matter of the Application of PACIFICORP, dba Utah Power & Light Company, for Approval of Standard Rates for Purchases of Power from Qualifying Facilities Having a Design Capacity of 1,000 Kilowatts or Less*, Docket No. 03-035-T10 (Order on Reconsideration; July 20, 2004, p. 3). The energy rate is an average annual energy rate with no seasonal or diurnal rate differentiation.

⁶ Under the time differentiated energy rates payment option, annual seasonal and diurnal energy rates, and no capacity rate, are posted for power delivered during 1) summer peak hours, 2) summer off-peak hours, 3) winter peak hours, and 4) winter off-peak hours. Under this payment option, the QF is paid for power at the price applicable at the time of power delivery. The peak-hour energy rate in this payment method is determined by allocating avoidable capital costs to peak hours, converting this dollar per kW-month value to dollars per MWh, and adding this amount to the average annual energy rate.

PacifiCorp recommends eliminating the capacity and energy rates payment option. PacifiCorp argues a QF receives a capacity payment regardless of its generation output under this payment option and could receive a capacity payment even though PacifiCorp cannot actually avoid the capacity cost. PacifiCorp testifies that removing the capacity and energy rates payment option is necessary to ensure Schedule 37 provides only one payment option that properly reflects avoided costs for all QF resource technologies and does not create an opportunity for QFs to game the method to extract higher profits at customer expense.

The Division agrees with PacifiCorp's proposal to remove the capacity and energy rates payment option. The Division asserts this option overcompensates some intermittent resources with lower capacity factors, because capacity contribution in the avoided cost calculation is overstated for these resources. To receive higher levels of compensation, according to the Division, QFs with such characteristics will choose this pricing option. The Division believes this option results in excessive QF payments, contravening PURPA standards requiring ratepayer indifference.

The Office argues PacifiCorp's proposal to eliminate the option of a capacity and average energy rate for Schedule 37 QFs is consistent with pricing offered under Schedule 38 and ensures ratepayer indifference. The Office contends current Schedule 37 payments under the capacity and energy rates payment option exceed PacifiCorp's avoided costs by approximately 2 to 4 cents per kilowatt hour.

The Office claims the two payment options yield significantly different payments for an individual QF such that a ratepayer would not be indifferent between the two options. The Office asserts that even if the capacity payment option could be modified to produce payments

equivalent to the time differentiated energy rates payment option, it is likely the two options would deviate again in the future. The Office claims it would be administratively burdensome to continually review these rates to ensure they remain aligned.

UCE opposes elimination of the capacity and energy rates payment option but agrees it should be modified to properly value the QF resource capacity. UCE argues it is reasonable to adjust the capacity payment of a renewable resource to be consistent with that resource's capacity value in reliably meeting load.

UCE contends elimination of the capacity and energy rates payment option discriminates against renewable QFs by denying them their capacity value. To promote the development of small QFs, UCE argues it is necessary to ensure fair compensation for the QF capacity brought to the system. UCE argues a 12-hour block summer and winter energy payment likely understates the capacity value provided by Schedule 37 solar QFs.

Remove SCCT Capacity Cost in the Resource Sufficiency Period

During the resource sufficiency period, the Schedule 37 method includes payment for avoided capacity cost in the months in each year in which PacifiCorp is capacity deficient. The method uses a fraction (depending on the number of months PacifiCorp is capacity deficient) of the annual fixed costs of a SCCT as this value. This value forms the capacity rates during the resource sufficiency period under the capacity and energy rates payment option. This value is allocated to peak hours to determine peak hour energy rates in the resource sufficiency period under the time differentiated energy rates payment option.

PacifiCorp, the Division and the Office argue this capacity cost should be removed from the calculation of Schedule 37 avoided costs based on the Commission's Schedule 38 Order that stated:

“We are persuaded the Proxy/PDDRR method properly reflects avoided capacity costs associated with FOT's (front office transactions) during the period of resource sufficiency. The evidence proffered by PacifiCorp and the Office shows a QF's displacement of FOTs, as determined within the GRID model, results in what PacifiCorp would have otherwise paid for capacity purchases. Thus, the inclusion of additional capacity value when a FOT is displaced would over-compensate the QF and violate the ratepayer neutrality objective.”⁷

Further, PacifiCorp states it will not procure thermal capacity resources in the resource sufficiency period in accordance with its IRP and IRP Update. For consistency with the Schedule 38 Order and with its IRP and IRP Update, PacifiCorp argues the capacity payments based on a SCCT should be removed.

UCE asserts the capacity value in the resource sufficiency period based on the costs of a SCCT is unique to the Schedule 37 method and has no clear corollary in the development of Schedule 38 QF rates. UCE testifies the Commission approved a summertime avoided capacity cost during the resource sufficiency period consistent with the method approved in Docket No. 94-2035-03. UCE argues the Commission recognized in its June 1, 2004, Order in Docket No. 03-035-T10 (“June 2004 Order”),⁸ the method provides a clear price signal that summer capacity costs more than at other times of the year. UCE recommends the

⁷ Direct Testimony of Abdinahir M. Abdulle, Ph.D., p. 5, lines 97-104. See also Schedule 38 Order, p. 35.

⁸ See *In the Matter of the Application of PACIFICORP, dba Utah Power & Light Company, for Approval of Standard Rates for Purchases of Power from Qualifying Facilities Having a Design Capacity of 1,000 Kilowatts or Less*, Docket No. 03-035-T10 (Order; June 1, 2004).

Commission maintain this capacity cost in the sufficiency period because Schedule 37 energy rates are calculated differently than Schedule 38 energy rates, and removing the capacity value disadvantages small solar QFs in comparison to large solar QFs.

According to UCE, the June 2004 Order approved the SCCT valuation approach in Schedule 37 for those months during the resource sufficiency period in which PacifiCorp's peak load exceeds the capacity of PacifiCorp's available resources and when PacifiCorp "plans to purchase this capacity."⁹ UCE argues the Schedule 38 method for determining energy rates "better captures the actual value of solar energy by accounting for its supply curve"¹⁰ thus producing higher energy prices for peak period power than the method used in Schedule 37. UCE asserts the Schedule 37 method uses a 10 MW resource with a flat profile (100 percent capacity factor) to calculate average energy prices for summer and winter, on and off-peak periods, during the period of resource sufficiency. According to UCE, this is a distinct disadvantage for solar QFs, since a solar resource produces the bulk of its energy during the period of highest value. UCE contends the inherent differences between the Schedule 37 and 38 methods in calculating energy rates confound parties' arguments that the proposed adjustment is necessary to achieve consistency between the two methods; rather, UCE contends it will unfairly disadvantage small QFs and decrease the accuracy of the Schedule 37 method.

At hearing, the Division acknowledged QF rates calculated on the basis of a solar resource's actual supply curve may displace more front office transactions (which contain capacity value) than it would when calculated on the basis of a flat 10 MW. Further, the Division

⁹ Direct Testimony of Sarah Wright, p. 22, line 555. *See also*, Ibid. p. 8.

¹⁰ Rebuttal Testimony of Sarah Wright, p. 4, lines 54-55.

acknowledged that Schedule 37 QFs are not compensated in the same way or to the same extent as QFs under Schedule 38. However, the Division does not consider this to be discriminatory because while Schedule 37 contains a simple process that does not account for the specific supply characteristics of a unique QF resource, it saves the small QF the burden of negotiating a contract.

Remove Carbon (“CO2”) Taxes from the Official Forward Price Curve

PacifiCorp states its Official Forward Price Curve (“OFPC”) for electricity is an input to calculating Schedule 37 rates during the resource-sufficient period. PacifiCorp claims that in recent years it has included an adder for an assumed tax on CO2 emissions in its OFPC for electricity. PacifiCorp testifies it includes a \$16 per ton CO2 tax beginning in 2022 in its March 2014 OFPC,¹¹ the OFPC for electricity used to calculate Schedule 37 rates in this docket.

PacifiCorp asserts it adjusted its OFPC for electricity to remove the CO2 adder in this docket. PacifiCorp argues the removal of the CO2 adder in this docket is consistent with the Commission’s September 30, 2009, order in Docket No. 09-035-T14 (“September 2009 Order”)¹² and the Schedule 38 Order.

In Docket No. 09-035-T14, PacifiCorp states it inadvertently included an assumed CO2 tax in the estimate of non-fuel variable operation and maintenance costs of the proxy combined cycle combustion turbine (“CCCT”) for Schedule 37. PacifiCorp states the Commission affirmed that such adders should not be included in Schedule 37 avoided costs, and PacifiCorp corrected its Schedule 37 rates accordingly. PacifiCorp contends the Commission in

¹¹ PacifiCorp notes that due to its blending of market quotes and modeled prices, prices in 2021 are also affected.

¹² See, *In the Matter of the Advice Filing No. 09-12 – Annual Update for Schedule 37 Avoided Cost Purchases from Qualifying Facilities (QF)*, Docket No. 09-035-T14 (Order; September 30, 2009).

the Schedule 38 Order also rejected proposals to increase avoided costs to recognize a QF's ability to reduce potential future costs related to environmental regulations.

PacifiCorp argues it is not inconsistent to include a CO2 tax in its OFPC in IRP analysis but exclude the tax for avoided cost calculations. PacifiCorp testifies it was directed by the Commission to include an assessment of environmental risk in the IRP but the Commission has not approved including an estimate of the cost of complying with an assumed future CO2 tax in the avoided cost calculation. PacifiCorp argues its IRP risk assumptions regarding a future CO2 tax are only estimates of possible future costs and therefore should not be included in avoided cost calculations where customers ultimately pay actual dollars. Until CO2 costs are more certain and better defined, PacifiCorp maintains a CO2 cost estimate should not be used in the development of avoided cost prices.

However, PacifiCorp also testifies the U.S. Environmental Protection Agency's ("EPA") proposed 111(d) regulation¹³ has changed the landscape. PacifiCorp states this is because it is a proposed rule rather than an assumption of a tax based on legislative proposals that have not been enacted. While PacifiCorp does not currently know what the 111(d) regulation will ultimately bring, it expects further discussion will occur regarding how the regulation will be reflected in planning and avoided cost calculations.

The Division addresses PacifiCorp's argument that removing the CO2 taxes from its OFPC for electricity is consistent with the Schedule 38 Order. The Division believes the

¹³ Carbon Pollution Emission Guidelines for Existing Stationary Sources: Electric Utility Generating Units, also commonly referred to as the Clean Power Plan, which proposes carbon dioxide emission limits for existing electric generation facilities.

Schedule 38 Order is ambiguous regarding whether CO2 taxes should or should not be included in the OFPC for electricity when calculating avoided costs.

It is the Division's view that the Schedule 38 Order:

“...suggests both that a speculative adder is inappropriate and that projections and forecasts of environmental risks appropriately can be considered in the IRP process. What the Commission order does not specifically address is whether the IRP process's price view or a more basic forward price curve should be used for QF purposes. The question in the 12-035-100 docket was whether an incremental adder should be applied to a specific type of resource based on its specific environmental benefits to the system. The Company's removal of the carbon tax from its IRP price view would accomplish something different than merely avoiding an incremental adder as proposed by UCE. Indeed, it would impact all QFs, regardless of resources type by removing the Company's best estimate of market prices in later years. Rather than merely forbidding an adder for certain types of resources, it would change the price for all proposed QFs. If the Company's best projection of its future prices is arrived at through the IRP process, the Company's proposal here ignores price components that the Company views as important in other contexts.”¹⁴

Thus, the Division contends the Schedule 38 Order “can be fairly confined to the question of whether to add to [the] Company's price outlook, *post hoc*, an amount to compensate for environmental benefits, which would allow the IRP assumptions. Alternatively, the Commission's order can be read to preclude the IRP assumptions about future carbon taxes as too speculative given that no such tax exists today and may never exist.”¹⁵

The Office supports PacifiCorp's proposal to remove the CO2 tax assumptions from PacifiCorp's OFPC used in the calculation of avoided costs in Schedule 37 because it is consistent with the Schedule 38 Order. According to the Office, the Commission clearly

¹⁴ Direct Testimony of Abdinasir M. Abdulle, Ph.D., p. 7, lines 131-144.

¹⁵ Direct Testimony of Abdinasir M. Abdulle, Ph.D., p. 8, lines 154-158.

excluded adjustments for environmental risk in its Schedule 38 Order, and therefore asserts PacifiCorp's removal of CO2 taxes from the OFPC in the calculation of avoided cost pricing in Schedule 37 is appropriate.

The Office questions whether estimated prices in the calculation of avoided costs can be consistent with IRP price assumptions because numerous price assumptions may be used in the IRP analysis. The Office testifies five different CO2 price assumptions are employed in the IRP. Indeed, the Office notes PacifiCorp's preferred portfolio is developed from a case that assumes no CO2 taxes. Therefore, the Office argues that unless the Commission provides specific guidance, it is unclear as to how future prices used to determine QF avoided costs can be strictly consistent with the IRP.

The Office disagrees with UCE's argument that removal of a CO2 tax assumption from the renewable QF avoided cost pricing calculation results in an unfair valuation of energy. The Office asserts UCE does not account for the fact that renewable QFs retain ownership of renewable energy credits ("RECs") they produce. According to the Office, these RECs provide renewable QFs value for the environmental attributes of the electricity such QFs generate.

UCE opposes PacifiCorp's proposal to remove its CO2 tax assumptions from the OFPC. UCE asserts avoided cost pricing should include environmental compliance costs and CO2 costs consistent with PacifiCorp's base case IRP assumptions. UCE argues IRP CO2 prices should be included in avoided cost pricing to reflect actual avoidable costs. UCE contends the IRP presents PacifiCorp's best public analysis of the costs and risks associated with the environmental impacts on its resource decisions.

UCE disagrees with PacifiCorp that removal of the CO2 taxes is consistent with the Commission's two orders in Docket No. 09-035-T14 or the Schedule 38 Order. Rather than forbidding the inclusion of environmental costs, UCE asserts the September 2009 Order called attention to the fact that PacifiCorp included environmental costs for the first time without explanation and directed PacifiCorp to explain the content of these costs and why they should or should not be included in the calculation of avoided costs.

UCE asserts the Commission's December 14, 2009, Order in Docket No. 09-035-T14 ("December 2009 Order") indicates avoided costs should be consistent with PacifiCorp's planning assumptions. In the December 2009 Order, UCE notes the Commission directed PacifiCorp to review the inclusion of environmental costs in variable operation and maintenance costs, as provided for in the IRP, in its next annual update of Schedule 37 rates.¹⁶ UCE states it reviewed Schedule 37 dockets since that time and contends PacifiCorp has not addressed the issue until now.

UCE contends the Schedule 38 Order allowed no specific adjustments to value fuel price hedging, fuel price volatility, or environmental risk, as such costs "...should be accounted for in PacifiCorp's IRP modeling and resource portfolio evaluation process where cost, risk and uncertainty are evaluated to identify a least-cost, risk-adjusted, long-term resource plan."¹⁷ UCE argues PacifiCorp now proposes a specific adjustment that "...reduces the value of mitigated environmental regulatory risks as modeled"¹⁸ in the IRP. UCE maintains this is

¹⁶ See, *In the Matter of the Advice Filing No. 09-12 – Annual Update for Schedule 37 Avoided Cost Purchases from Qualifying Facilities (QF)*, Docket No. 09-035-T14 (Report and Order Approving Rates with Modifications; December 14, 2009, p. 5).

¹⁷ Direct Testimony of Sarah Wright, p. 16, lines 419-421.

¹⁸ *Ibid.* p. 17, line 447.

inappropriate in light of the Commission's guidance to set avoided costs in a manner consistent with the IRP. UCE recommends the Commission should set avoided cost prices consistent with PacifiCorp's planning assumptions to benefit from the IRP's consideration of long term cost, risk and uncertainty.

UCE contends PacifiCorp's proposal to remove carbon costs from its avoided cost calculations is not in the public interest and will: (1) leave ratepayers at risk for carbon regulatory costs as well as for stranded asset costs, (2) result in unfair pricing for renewable QFs, (3) diminish the risk mitigating benefits of renewable resources and, (4) reduce the probability of such projects being built. To the extent PacifiCorp shareholders accept the risk associated with CO2 costs and stranded assets, UCE argues it would be appropriate to exclude these costs from avoided cost rates.

SunEdison argues in its comments the Commission's Schedule 38 Order is clear in rejecting specific adjustments for environmental externalities. However, according to SunEdison, that order does not support PacifiCorp's "ad hoc" adjustment to remove the impacts of assumed CO2 costs. SunEdison argues such a removal introduces undue ratepayer risk. SunEdison contends the CO2 projections included in PacifiCorp's IRP are not speculative, and are no more likely to be correct or incorrect than similar long-term projections for loads or fuel or capital costs. SunEdison claims adjustments to four separate GRID data input files are necessary to remove assumed CO2 impacts from the model.

Other Issues

The Office recommends PacifiCorp involve stakeholders and obtain Commission approval prior to making any changes to its avoided cost modeling or to QF pricing to address transmission constraints.

The Office also asserts the parties should not solely rely on PacifiCorp's annual filing information to identify issues with Schedule 37 avoided costs. In future filings, the Office recommends PacifiCorp report on the contracts signed under Schedule 37 the previous year. This report should include relevant project information including the contract date, scheduled operation date, and the resource type, capacity, location, and estimated average price per MWh.

DISCUSSION, FINDINGS, AND CONCLUSIONS

We approve the five adjustments proposed by PacifiCorp and approve the Schedule 37 rates as filed. Our decision rests on the testimony and other evidence presented in this case by the Division and the Office, as well as PacifiCorp, that support PacifiCorp's proposed adjustments to the Schedule 37 method. Additionally, we recognize that the Schedule 37 method, while less precise than the Schedule 38 method, is intended to provide pricing that is simpler and easier for smaller QFs to access. We conclude the proposed adjustments will maintain appropriate simplicity, improve consistency between the methods and produce reasonable avoided cost calculations. In addition, they are consistent with the ratepayer indifference objective.

Among other things, this order approves PacifiCorp's proposal to eliminate the annual fixed costs of a SCCT during the period of resource sufficiency. This action is based, at least in part, on our Schedule 38 Order that finds wholesale power purchased to meet capacity

constraints already contains capacity value; therefore, adding the SCCT value to the wholesale market price is excessive.

We note, however, the peak and off-peak rates PacifiCorp proposes for Schedule 37 are equal during the resource sufficiency period (with the SCCT costs removed). In other words, the capacity value contained in the wholesale power purchase to meet peak hour constraints is averaged across all hours in the proposed rates. Because the Schedule 38 method uses the unique characteristics of the QF to calculate avoided costs, peak and off-peak energy rates during the resource sufficiency period will not be equal.

To examine the effects of this particular difference in the Schedule 37 and 38 methods, we direct PacifiCorp to file a potential adjustment to the Schedule 37 method that produces distinct peak and off-peak prices in the resource sufficiency period. PacifiCorp should make this filing by April 30, 2015, or its next Schedule 37 rate update, whichever is sooner. The avoided costs produced using this potential adjustment should be filed as an alternative to the avoided costs developed under the Schedule 37 method adopted in this order.

Our decision to affirm PacifiCorp's exclusion of possible future CO2 taxes from the OFPC for electricity in this case is driven by the fact that no such tax exists and attempts at legislation to implement this tax have failed. The Federal Energy Regulatory Commission defines avoided costs as "the incremental costs to an electric utility of electric energy or capacity or both which, but for the purchase from the qualifying facility or qualifying facilities, such utility would generate itself or purchase from another source."¹⁹ Though a possibility, it is highly

¹⁹ See Federal Energy Regulatory Commission Regulations Subpart A – General Provisions Section 292.101 Definitions, (b) (6).

uncertain whether a tax will be imposed in the 20-year planning horizon, let alone what the rate of such a tax might be. Thus, it is highly uncertain whether the generation of the QF would cause PacifiCorp to avoid paying such a tax.

UCE and others refer to the EPA's proposed greenhouse gas regulations for existing power plants as justifying inclusion now of CO2 mitigation costs in Schedule 37 avoided cost calculations. The regulations, however, are not yet final. Indeed, the time for filing public comments has not yet expired. Potential compliance strategies are only in the initial stages of exploration. Any associated costs are conjecture at this stage. We will continue to examine the issue of possible CO2 mitigation costs as developments relative to the proposed regulations ensue.

ORDER

Pursuant to our discussion, findings and conclusions, we order:

1. The Schedule 37 rates are approved as filed.
2. PacifiCorp shall file a possible adjustment to the method for Schedule 37 that produces distinct peak and off-peak rates in the resource sufficiency period, by April 30, 2015, or its next Schedule 37 rate update, whichever is sooner.

DOCKET NOS. 14-035-55 AND 14-035-T04

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DATED at Salt Lake City, Utah, this 21st day of October, 2014.

/s/ Ron Allen, Chairman

/s/ David R. Clark, Commissioner

/s/ Thad LeVar, Commissioner

Attest:

/s/ Gary L. Widerburg
Commission Secretary
DW#261580

Notice of Opportunity for Agency Review or Rehearing

Pursuant to §§ 63G-4-301 and 54-7-15 of the Utah Code, an aggrieved party may request agency review or rehearing of this Order by filing a written request with the Commission within 30 days after the issuance of this Order. Responses to a request for agency review or rehearing must be filed within 15 days of the filing of the request for review or rehearing. If the Commission does not grant a request for review or rehearing within 20 days after the filing of the request, it is deemed denied. Judicial review of the Commission's final agency action may be obtained by filing a petition for review with the Utah Supreme Court within 30 days after final agency action. Any petition for review must comply with the requirements of §§ 63G-4-401 and 63G-4-403 of the Utah Code and Utah Rules of Appellate Procedure.

CERTIFICATE OF SERVICE

I CERTIFY that on the 21st day of October, 2014, a true and correct copy of the foregoing was served upon the following as indicated below:

By Electronic-Mail:

Data Request Response Center (datarequest@pacificorp.com)
PacifiCorp

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