

- BEFORE THE PUBLIC SERVICE COMMISSION OF UTAH -

Rocky Mountain Power's Proposed Tariff Revisions to Electric Service Schedule No. 37, Avoided Cost Purchases from Qualifying Facilities	<u>DOCKET NO. 17-035-T07</u>
Rocky Mountain Power's 2017 Avoided Cost Input Changes Quarterly Compliance Filing	<u>DOCKET NO. 17-035-37</u> <u>ORDER</u>

ISSUED: January 23, 2018

SHORT TITLE

Updates and Revisions to Avoided Cost Pricing Methodologies for QF Resources

SYNOPSIS

The Public Service Commission (PSC) reaffirms its prior decision regarding the Proxy/PDDRR avoided cost pricing methodology and approves PacifiCorp's interpretation of the method for Schedule 38. The PSC also: 1) approves PacifiCorp's proposal concerning retention of Renewable Energy Credits (REC or RECs) associated with Qualifying Facility (QF) output; 2) approves application of the Proxy/PDDRR methodology to Schedule 37 QFs; 3) determines that proposed Wyoming wind and transmission facilities are deferrable until a final PSC determination is made regarding these resources or PacifiCorp independently determines it will no longer pursue these projects; 4) denies PacifiCorp's proposed treatment of Production Tax Credits in the calculation of avoided cost prices; and 5) declines at this time to subject Schedule 37 projects to the Schedule 38 queue.

TABLE OF CONTENTS

APPEARANCES..... iv

PROCEDURAL HISTORY..... 1

PACIFICORP’S FILINGS 2

DISCUSSION, FINDINGS AND CONCLUSIONS 5

I. UNDISPUTED ISSUES 5

A. Parties’ Positions 5

B. Findings and Conclusions..... 6

II. DISPUTED ISSUES 6

A. Compliance Filing Non-Routine Update - REC Ownership 6

 1. Parties’ Positions..... 6

 2. Findings and Conclusions..... 7

B. Interpretation of the Proxy/PDDRR Methodology 8

 1. Parties’ Positions..... 8

 2. Findings and Conclusions..... 13

**C. Compliance Filing – Routine Update - Incorporation of the 2017 IRP Preferred Portfolio --
Deferability of Wyoming Wind and Transmission Resources 14**

 1. Parties’ Positions..... 14

 2. Findings and Conclusions..... 18

D. Application of Proxy/PDDRR Method to Schedule 37 QFs – Consistency with Schedule 38 20

 1. Parties’ Positions..... 20

 2. Findings and Conclusions..... 22

E. Schedule 37 Queue 23

 1. Parties’ Positions..... 23

 2. Findings and Conclusions..... 25

F. Avoided Cost Price Floor 26

 1. Parties’ Positions..... 26

 2. Findings and Conclusions..... 27

G. Renewable Avoided Cost Rates 28

1. Parties' Positions.....	28
2. Findings and Conclusions.....	29
H. Avoided Line Losses	30
1. Parties' Positions.....	30
2. Findings and Conclusions.....	31
I. Removal of PTCs from the Levelized Avoided Cost Calculation.....	31
1. Parties' Positions.....	31
2. Findings and Conclusions.....	32
ORDER.....	33

APPEARANCES

Yvonne R. Hogle, Esq. Rocky Mountain Power	For	Rocky Mountain Power
Justin C. Jetter, Esq. Utah Office of the Attorney General	"	Division of Public Utilities
Steven Snarr, Esq. Utah Office of the Attorney General	"	Office of Consumer Services
Sophie Hayes, Esq. Utah Clean Energy	"	Utah Clean Energy
Irion Sanger, Esq. Renewable Energy Coalition	"	Renewable Energy Coalition

PROCEDURAL HISTORY

On May 30, 2017, PacifiCorp, dba Rocky Mountain Power (PacifiCorp) filed with the Public Service Commission of Utah (PSC) proposed revisions to Electric Service Schedule No. 37, Avoided Cost Purchases from Qualifying Facilities (Schedule 37), in Docket No. 17-035-T07 (Application). Schedule 37 applies to Utah-located cogeneration qualifying facilities (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.¹

On June 21, 2017, PacifiCorp, filed its 2017 Quarter 1 Avoided Cost Input Changes Quarterly Compliance Filing (Compliance Filing) in Docket No. 17-035-37. PacifiCorp's Compliance Filing identifies four routine and two non-routine updates to its calculation of avoided cost prices for Electric Service Schedule No. 38 (Schedule 38) QFs.² The Compliance filing was made pursuant to the PSC's June 9, 2015 Order Approving Settlement Agreement on Schedule 38 Procedures in Docket No. 14-035-140.³

¹ PacifiCorp represents it filed the Application in compliance with the PSC's order in Docket No. 08-035-78 requiring PacifiCorp to update Schedule 37 annually, and the PSC's order in Docket No. 12-035-T10 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. *See In the Matter of the Consideration of Changes to Rocky Mountain Power's Schedule No. 135 - Net Metering Service*, (Report and Order Directing Tariff Modifications, issued February 12, 2009), Docket No. 08-035-78. *See also In the Matter of Rocky Mountain Power's Proposed Rate Changes to Electric Service Schedule No. 37, Avoided Cost Purchases from Qualifying Facilities*, (Clarification and Procedural Order, issued November 28, 2012), Docket No. 12-035-T10.

² Schedule 38 applies to owners of existing or proposed QFs with a design capacity greater than 1,000 kW for a Cogeneration Facility or greater than 3,000 kW for a Small Power Production facility who desire to make sales to PacifiCorp, and to QFs who are not able to obtain pricing under Schedule 37 because the Schedule 37 cap has been reached.

³ *See In the Matter of the Review of Electric Service Schedule No. 38, Qualifying Facilities Procedures, and Other Related Procedural Issues* (Order Approving Settlement Agreement on Schedule 38 Procedures, issued June 9, 2015, Attachment: Settlement Agreement, Settlement Terms 19-23), Docket No. 14-035-140.

On July 20, 2017, Utah Clean Energy (UCE) filed a motion to suspend the Phase II schedule in Docket No. 17-035-T07 and to consolidate it with the schedule in Docket No. 17-035-37 (UCE's Motion) because the issues in both dockets are materially similar.⁴ The PSC issued a notice of filing and request to make objections to UCE's Motion known at the July 26, 2017 scheduling conference in Docket No. 17-035-37. All parties present at the scheduling conference supported UCE's Motion. Accordingly, on July 27, 2017, the PSC granted UCE's Motion and issued an Order Consolidating Dockets and Suspending the Phase II Schedule in Docket 17-035-T07, and Scheduling Order (Scheduling Order) consolidating Docket Nos. 17-035-T07 and 17-035-37.

Pursuant to the Scheduling Order, on August 17, 2017, PacifiCorp filed direct testimony. The Division of Public Utilities (DPU), the Office of Consumer Services (OCS), UCE, and the Renewable Energy Coalition (Coalition) filed direct testimony on October 3, 2017. PacifiCorp, the DPU, the OCS, and UCE filed rebuttal testimony on October 31, 2017. PacifiCorp, the DPU, UCE, and the Coalition filed surrebuttal testimony on November 21, 2017. The PSC held a hearing on December 4, 2017 at which PacifiCorp, the DPU, the OCS, UCE, and the Coalition presented testimony.

PACIFICORP'S FILINGS

Docket No. 17-035-T07: PacifiCorp's Application proposes to change the current Schedule 37 avoided cost pricing methodology to be consistent with the methodology used for

⁴ On June 12, 2007, the PSC issued a Scheduling Order and Order Suspending Tariff in Docket No. 17-035-T07. This order initially divided the 17-035-T07 docket into two phases with Phase I addressing the current Schedule 37 methodology and Phase II addressing the proposed changes to the Schedule 37 methodology.

determining avoided cost prices under Schedule 38. Specifically, PacifiCorp proposes to calculate Schedule 37 rates specific to each resource type using the Partial Displacement Differential Revenue Requirement (PDDRR) methodology approved by the PSC for determining non-standard avoided costs under Schedule 38. Using the Schedule 38 methodology results in the following changes:

- Renewable resources displace the next deferrable “like” renewable resource identified in PacifiCorp’s 2017 Integrated Resource Plan (IRP) preferred portfolio,⁵ after accounting for the queue of potential QFs. For non-renewable resources, or if no “like” renewables remain in the 2017 IRP preferred portfolio through the expected term, the next deferrable major thermal resource is displaced, again after accounting for the queue of potential QFs.
- Avoided energy costs are calculated using the expected output of a 10 MW resource of each type and are net of the value of displaced resources from the 2017 IRP preferred portfolio.

The Application also proposes that during the portion of a QF’s contract in which it receives a capacity payment based on the costs of a renewable resource, PacifiCorp will be entitled to the renewable energy credits (RECs) associated with the QF’s output. Beyond the renewable resource-based capacity payment, no additional compensation will be paid for these RECs. When a QF’s capacity payment is not based on the costs of a renewable resource, the QF will continue to be entitled to the RECs associated with its output, as is currently the case today.

The Application also identifies and provides support for changes to several avoided cost model inputs including updated market prices reflecting PacifiCorp’s March 31, 2017 Official Forward Price Curve (1703 OFPC), as well as updated wind and solar integration costs and

⁵ See *PacifiCorp’s 2017 Integrated Resource Plan* (IRP Volumes 1 and 2 filed on April 4, 2017), Docket No. 17-035-16.

intermittent QF resource capacity contribution values consistent with PacifiCorp's 2017 IRP. The Application includes proposed revisions to P.S.C.U No. 50 (Tariff) Sheet Nos. 37.2, 37.4, 37.5, 37.6, and 37.7, reflecting PacifiCorp's proposal and minor revisions for clarity and consistency suggested by the DPU in Docket No. 16-035-T06.⁶

Docket No. 17-035-37: PacifiCorp's Compliance Filing identifies four routine and two non-routine updates used in its calculation of avoided cost prices for Schedule 38. In its routine updates, PacifiCorp proposes to: 1) update PacifiCorp's Generation and Regulation Initiative Decision Tool (GRID) to incorporate the preferred portfolio, capacity contribution, and integration costs from 2017 IRP; 2) implement PacifiCorp's 1703 OFPC; 3) incorporate the incremental demand side management (DSM) selections from the 2017 IRP preferred portfolio into load forecast dated October 4, 2016; and 4) update the QF queue to reflect current signed and potential QFs.

Regarding PacifiCorp's two non-routine updates, first (and identical to its Schedule 37 proposal), PacifiCorp proposes that during the portion of a QF's contract in which it receives an avoided capacity payment based on deferral of a like renewable resource, PacifiCorp would own the RECs associated with that QF's output. A QF would then receive no additional compensation for RECs beyond the capacity payment associated with the proxy resource being deferred. During any portion of a QF's term when its avoided capacity costs are not based on the costs of a renewable resource, the QF will continue to be entitled to the RECs associated with its output. Second, PacifiCorp proposes to calculate avoided cost pricing beyond the end of the IRP

⁶ See *In the Matter of Rocky Mountain Power's Proposed Revisions to Electric Service Schedule No. 37, Avoided Cost Purchases from Qualifying Facilities* (DPU Comments filed on May 24, 2016), Docket No. 16-035-T06.

preferred portfolio resource expansion planning period by escalating the final year values at inflation. PacifiCorp claims this change is necessary because: 1) given the current planning cycle, it is possible that a QF's contract term could extend beyond the end of the 2017 IRP study term which ends in 2036; and 2) the GRID model cannot produce accurate avoided costs when resources required to meet the load and planning reserve margin are not identified and included in the model.

DISCUSSION, FINDINGS AND CONCLUSIONS

I. UNDISPUTED ISSUES

A. Parties' Positions

At the conclusion of the December 4 hearing, no party opposed PacifiCorp's following updates for the Schedule 38 PDDRR Method: GRID updates to incorporate capacity contribution and integration costs from the 2017 IRP; use of PacifiCorp's 1703 OFPC; incorporation of the incremental DSM selections from the 2017 IRP preferred portfolio into the load forecast dated October 4, 2016; and updates to the QF queue for Schedule 38 to reflect current signed and potential QFs. Further, no party opposed PacifiCorp's non-routine post-IRP resource expansion plan pricing assumption update.

Regarding PacifiCorp's proposed non-routine post-IRP resource expansion plan pricing update, the DPU acknowledges that a QF initiating contractual negotiations with PacifiCorp prior to the end of the current IRP cycle could receive a contract term extending beyond the end of the 2017 IRP study term and agrees with PacifiCorp's assessment that the GRID model lacks the capability to produce accurate avoided costs beyond the end of this period. The DPU,

therefore, supports PacifiCorp's proposal to determine avoided cost prices beyond the IRP resource expansion planning period by inflating the final year's value at the IRP's forecasted inflation rate. No party opposes the DPU's position.

B. Findings and Conclusions

Since no party challenges the routine updates identified above, we approve these updates pursuant to our order in Docket No. 14-035-140.

Based on PacifiCorp's assessment that the GRID model lacks the capability to produce accurate avoided costs beyond the end of the 2017 IRP study period, as supported by the DPU, we find PacifiCorp's proposal for post-IRP expansion plan pricing to be reasonable, and we approve it.

II. DISPUTED ISSUES

A. Compliance Filing Non-Routine Update - REC Ownership

1. Parties' Positions

As noted above, PacifiCorp proposes to retain the RECs associated with QF output during that period where a QF receives a capacity payment for deferring or avoiding a renewable resource of the same type. PacifiCorp cites the PSC's October 4, 2013 Order Granting in Part and Denying in Part Rocky Mountain Power's Petition for Review and Clarification in Docket No. 12-035-100 (October 2013 Order) to justify this change. In the October 2013 Order, the PSC determined the issue of REC ownership "may be more appropriately addressed and vetted by the [PSC] when a renewable QF is actually poised to defer a cost-effective renewable resource

included in the IRP Action Plan.”⁷ PacifiCorp claims it is proposing this change because the 2017 IRP preferred portfolio now contains cost-effective renewable resources.

Both the DPU and the OCS agree PacifiCorp’s REC ownership proposal is reasonable and should be adopted for both Schedule 37 and 38 QFs. The DPU maintains the proposal is consistent with the Public Utility Regulatory Policies Act of 1978 (PURPA) indifference standard. Likewise, the OCS maintains the proposed REC allocation approach is necessary to meet PURPA customer indifference standards. According to the OCS, the renewable resources identified in PacifiCorp’s IRP account for RECs. Further, the OCS states that if a QF defers a renewable resource that would produce RECs for the benefit of customers, PacifiCorp should likewise retain the QF-generated RECs to maintain this benefit to customers.

Alternatively, the Coalition recommends that if a QF is paid a renewable rate (discussed below) it should transfer its RECs to PacifiCorp during the years in which the QF is deferring a renewable resource acquisition. Conversely, when the renewable QF is paid a non-renewable rate based on the costs of market purchases and a gas plant, the QF should retain the RECs associated with its output in all years.

2. Findings and Conclusions

In our October 2013 Order, we determined the value of RECs PacifiCorp assumes for either building or acquiring an IRP renewable resource acts as an offset to the IRP’s renewable resource capital costs.⁸ With the exception of the conditions identified in the Coalition’s

⁷ *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* (Order Granting in Part and Denying in Part Rocky Mountain Power’s Petition for Review and Clarification, issued October 4, 2013, p. 7), Docket No. 12-035-100.

⁸ *See id.*

proposal, no party opposes the concept that when a renewable QF defers or avoids a renewable resource, ownership of the RECs associated with that QF's output should be retained by PacifiCorp for the benefit of PacifiCorp's ratepayers. Further, no party disputes PacifiCorp's assertion that its IRP analysis now assumes that PacifiCorp retains title to the RECs associated with the output of renewable QF resources when a QF defers or avoids a renewable resource and that avoided cost pricing based on IRP resource costs accounts for the disposition of these RECs, better ensuring ratepayer indifference between the QF resource and the respective IRP preferred portfolio resource.

We find that when a QF defers or avoids a renewable resource, the ratepayers who pay for the QF contract are entitled to the benefits of the RECs PacifiCorp would have received from the deferred or avoided resource. When a QF's avoided capacity costs are not based on the costs of a renewable resource, the QF is entitled to the RECs associated with its output. Therefore, based on PacifiCorp's testimony, and the unopposed testimony of the DPU that PacifiCorp's proposal is consistent with the PURPA ratepayer indifference standard, we approve this Schedule 38 non-routine update and its applicability to Schedule 37.

B. Interpretation of the Proxy/PDDRR Methodology

1. Parties' Positions

Regarding its interpretation of the current Proxy/PDDRR methodology approved by the PSC in Docket No. 12-035-100, PacifiCorp proposes that when the IRP preferred portfolio includes renewable resources of the same type as a QF project, forecasted avoided capacity costs should be based on the assumed fixed costs of the next deferrable renewable resource of that like

type.⁹ Alternatively, if the IRP preferred portfolio does not include a renewable resource of the same type as a QF, avoided capacity costs should be based on the capital costs of the next deferrable thermal resource in the IRP preferred portfolio.

According to PacifiCorp, a QF must defer IRP resources based on equivalent capacity contributions to maintain a consistent load and resource balance sufficient to meet the assumed IRP system planning reserve margin. PacifiCorp asserts that limiting deferral to QFs of the same type ensures “reasonable alignment between the operating characteristics of a QF and the preferred portfolio resources it is assumed to defer, which in turn helps ensure that the least-cost, least-risk outcomes achieved by the preferred portfolio are maintained.”¹⁰ In addition, PacifiCorp claims this approach is necessary to ensure that avoided cost prices more accurately reflect the impacts and timing of federal production tax credit (PTC) benefits unique to the real-levelized annual cost of each different IRP renewable resource.

PacifiCorp notes that the 2017 IRP preferred portfolio now includes renewable resources (wind, solar, and geothermal) in addition to thermal resources, and testifies that these resources are included in the preferred portfolio because they support an optimized balance of cost and risk for the portfolio as a whole. PacifiCorp claims that limiting deferral of renewable resources to QFs of the same type helps maintain this optimized balance, thus ensuring the customer indifference standard is met.

⁹ According to PacifiCorp, IRP renewable resources that are of the same type as a renewable QF project means the QF’s deferral capabilities are reflective of its operational characteristics, not the specific technology of the resource identified in the preferred portfolio. (*See* Direct Testimony of Daniel J. MacNeil, filed August 17, 2017, p. 8, lines 161-170), Docket Nos. 17-035-37 and 17-035-T07.

¹⁰ *Id.* at 12, lines 239-242.

The DPU supports as reasonable PacifiCorp's interpretation of the approved Proxy/PDDRR method, testifying this approach preserves the customer indifference standard. The DPU asserts that since the operating characteristics of the QF and the preferred portfolio resource it defers are the same, the capacity provided by the QF should be equivalent to the capacity it replaces from the IRP preferred portfolio. DPU claims PacifiCorp's proposed approach will yield more accurate avoided cost prices for each resource type since specific GRID runs will be performed for each resource type based on the specific characteristics of the proposed QF and proxy resource.

Both UCE and the Coalition express concern with PacifiCorp's interpretation of the approved Proxy/PDDRR approach. Both parties oppose PacifiCorp's proposal to limit a QF's deferral of an IRP preferred portfolio resource to only those renewable resources of the same type as the QF. According to UCE, PacifiCorp's approach will result in "technology-specific sufficiency and deficiency periods, resulting in anomalous avoided cost results."¹¹ UCE claims that by limiting renewable QFs to deferring resources of similar types, the QF may be denied access to prices reflecting PacifiCorp's true avoided costs, arguing that "PURPA calls for compensating QFs for a utility's actual incremental avoided energy and capacity costs, not just those not associated with a subset of comparable resources that happen to show up in an IRP portfolio."¹²

UCE also questions PacifiCorp's claim that costs and value of different renewable resources cannot be accurately compared. According to UCE, such a claim "implies that the

¹¹ Surrebuttal Testimony of Ken Dragoon, lines 180-181, filed November 21, 2017.

¹² December 4, 2017 Hearing Transcript at 126, lines 2-7.

differences between renewable resources is somehow greater and more difficult to assess than the differences between renewable resources and thermal resources.”¹³ UCE claims such an argument is unsupported in PacifiCorp’s testimony and is counter to PURPA policy.

UCE suggests avoided costs for differing kinds of renewable QFs can be determined by basing the deferral of IRP preferred portfolio renewable resources on energy values instead of the QF’s relative capacity contribution. UCE states that its suggested approach is straightforward and can be conducted using PacifiCorp’s existing models and methods.

UCE challenges DPU’s claim that allowing renewable QFs to defer only renewable resources with similar characteristics preserves the customer indifference standard. UCE argues this approach potentially prohibits QFs from receiving avoided cost rates that are consistent with the customer indifference standard.

UCE recommends the PSC reject PacifiCorp’s proposed implementation of Schedule 38 avoided cost pricing. UCE recommends the PSC either: 1) use the IRP preferred portfolio resource costs to establish an avoided cost floor; or 2) approve the Coalition’s recommendations to allow renewable QFs to choose either a renewable or a non-renewable avoided cost rate. In addition, UCE suggests the PSC require “further, more thorough evaluation of methods for setting renewable avoided cost prices based on the deferral of renewable resources of all types.”¹⁴

The Coalition argues PacifiCorp’s proposed like-for-like deferral restrictions are unreasonable and prevent a renewable QF from being fairly compensated simply because the QF

¹³ *Supra* n.11 at 6-7, lines 113-115.

¹⁴ *Supra* n.12 at 130, lines 10-13.

is different from a resource type than that PacifiCorp deems deferrable at an earlier date in the IRP planning horizon. The Coalition claims that “[i]mplicit in [PacifiCorp’s] advocacy for these restrictions is the notion that [PacifiCorp] is somehow unable to partially or wholly defer a wind plant when a renewable QF using a different technology timely comes online.”¹⁵ The Coalition contends such a premise is highly implausible.

When considering adding new resources in its IRP, the Coalition claims that “[PacifiCorp] must consider the impact of long-term QF contracts on the need for Company-owned capacity after taking account of the capacity characteristics of the QF resources.”¹⁶ The Coalition argues this evaluation must be performed irrespective of the QF resource type, claiming it unreasonable to assume that a new renewable QF contract of one resource type would have no influence on the future need for a PacifiCorp-owned resource of another technology type.

The Coalition argues that any renewable QF seeking avoided cost pricing under either Schedule 37 or Schedule 38 should be able to have its avoided cost pricing determined based on displacement of the next renewable resource irrespective of type, with appropriate adjustments for capacity equivalence.

PacifiCorp claims that both UCE and the Coalition fail to provide evidence their proposed capacity equivalence methodologies produce more accurate avoided costs than under the current methodology and argues their proposals are inconsistent with the approved avoided cost methodology.

¹⁵ *Supra* n.12 at 145, lines 16-20.

¹⁶ *Id.* at 145, lines 21-25; at 146, line 1.

PacifiCorp also asserts UCE's proposed avoided cost methodology does not account for the variations in operational characteristics between different types of renewable resources and, without supporting calculations, is difficult to evaluate. PacifiCorp maintains it is therefore impossible to judge whether avoided costs determined under either of the proposed alternate approaches would be just, reasonable, and consistent with the customer indifference standard.

2. Findings and Conclusions

In our August 16, 2013 Order on Phase II Issues (August 2013 Order) in Docket No. 12-035-100, we determined that for renewable QF resources seeking indicative pricing under Schedule 38, when PacifiCorp's planned resources include cost-effective renewable resources, "like" resource costs are reasonable to use as the proxy for purposes of avoided cost calculations of QF capacity payments determined within the Proxy/PDDRR method.¹⁷ In this same order, we also determined that when a like cost-effective renewable resource is not included in PacifiCorp's planned resources, the capital cost of the next deferrable thermal resource will serve as the proxy for the Schedule 38 QF capacity payment.¹⁸ Based on PacifiCorp's testimony, we reaffirm these determinations and agree since the 2017 IRP preferred portfolio now includes renewable resources, full implementation of this methodology is warranted.

We note PacifiCorp's testimony that the renewable resources appearing in the IRP preferred portfolio are components of the least-cost, least-risk portfolio of resources needed to meet system load over time. We also find compelling PacifiCorp's assertion the avoided cost

¹⁷ 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* (Order on Phase II Issues, issued August 16, 2013, p. 20), Docket No. 12-035-100.

¹⁸ See *id.*

calculation should consider the operational and risk characteristics that are essential factors within the IRP's portfolio optimization process in determining whether one resource is preferable to another. At hearing, PacifiCorp testified that "Our best estimate of the capacity that the utility will actually avoid is by looking at the preferred portfolio, the information it contains, [and] the information it doesn't contain. . . ." ¹⁹ We agree this approach helps ensure avoided costs reflect the cost and risk characteristics of the proxy resource in the IRP preferred portfolio a QF is assumed to displace.

In considering the testimony of UCE and the Coalition, we find their proposed alternatives to be conceptual in nature and therefore we are unable to evaluate them for implementation. We agree with PacifiCorp's testimony that PacifiCorp's proposed implementation of the Proxy/PDDRR method regarding the deferral of renewable resources appearing in the IRP preferred portfolio is reasonable and consistent with our August 2013 Order. We adopt that position as our conclusion. Therefore, we approve this method for the determination of both Schedule 37 and 38 QF avoided cost pricing.

C. Compliance Filing – Routine Update - Incorporation of the 2017 IRP Preferred Portfolio -- Deferrability of Wyoming Wind and Transmission Resources

1. Parties' Positions

PacifiCorp maintains the following resources from the 2017 IRP preferred portfolio are currently considered deferrable:

Thermal:

- 2029: Utah North simple cycle combustion turbine (SCCT) (200 MW)
- 2030: Willamette Valley combined cycle combustion turbine (CCCT) (436 MW)

¹⁹ *Supra* n.12 at 32, lines 10-13.

- 15 -

- 2033: Dave Johnston SCCT (200 MW)
- 2033: Dave Johnston CCCT (477 MW)

Wind:

- 2031: Dave Johnston wind (85 MW)
- 2036: Goshen wind (774 MW)

Solar:

- 2028-2034: Yakima fixed tilt solar (240 MW)
- 2031-2036: Utah South single tracking solar (800 MW)

Geothermal:

- 2029: West geothermal (30 MW)

Absent from this list is PacifiCorp's 2021 proposed acquisition of 1,100 MW of

Wyoming wind resources also identified in the 2017 IRP preferred portfolio. PacifiCorp claims the proposed Wyoming wind and associated Aeolus-to-Bridger/Anticline transmission resources are not deferrable. According to PacifiCorp, the Wyoming wind resources are eligible for the full value of PTCs and these resources, along with the new transmission associated with this project, provide all-in economic benefits to PacifiCorp customers in all jurisdictions. Further, PacifiCorp claims QF projects that do not interconnect with or use PacifiCorp's Wyoming transmission system to deliver energy and capacity in this timeframe would not partially displace or defer any of the 1,100 MW of new wind associated with the project.

According to PacifiCorp, if the Wyoming wind resource were deferred to a later date it would not qualify for PTC benefits if deferred after December 31, 2020. Without these benefits, PacifiCorp contends the Wyoming wind resource would not be part of its least-cost, least-risk plan to reliably meet system load. In addition, PacifiCorp asserts the proposed transmission line that enables interconnection of these resources to PacifiCorp's system cannot be reduced in size,

arguing the transmission line and the new wind resources are mutually dependent upon one another.

In general, PacifiCorp contends partial displacement is reasonable when:

“capacity additions can be delayed or scaled down as a result of a QF resource addition. The addition of a Utah wind QF project would not defer the new wind and transmission planned to come online by the end of 2020 in the Company’s 2017 IRP preferred portfolio. Given the net benefits these projects provide to the Company’s retail customers, it will pursue these projects even if new QF projects were added to the system in Utah.”²⁰

The Coalition contends the 2021 Wyoming wind resource should be the appropriate proxy that is partially displaceable or deferrable for the purpose of determining avoided capacity and energy costs for all renewable QFs seeking avoided cost pricing under either Schedule 38 or Schedule 37. The Coalition asserts the Wyoming wind project’s associated transmission should likewise be considered in the calculation of avoided costs, arguing that the 2021 Wyoming wind resources cannot be wheeled to load without new transmission and would be avoided if the proxy (wind) resource were avoided.

According to the Coalition, PacifiCorp has not sufficiently explained its assertion that this resource cannot be partially displaced or deferred by QF resources outside of Wyoming. The Coalition asserts that while small amounts of capacity provided from QFs taken individually might not enable a purchasing utility to defer or avoid scheduled capacity additions, the aggregate capability of such purchases may permit the deferral or avoidance of a capacity addition. The Coalition argues if PacifiCorp’s assumptions regarding deferral of the Wyoming

²⁰ *Supra* n.9 at 33, lines 682-688.

resource were accepted, Utah QFs would never be paid any capacity because no single Utah QF could displace a Wyoming power plant.

The Coalition recommends PacifiCorp's proposed 2021 Wyoming wind resource be considered the proxy resource for all QFs seeking avoided cost pricing, "unless and until [PacifiCorp] declares that it's not going to pursue this project, regardless of whether such a declaration results from a [PSC] decision, or for any other reason."²¹ At hearing, the Coalition also clarified that this project be considered as the next deferrable resource unless and until PacifiCorp determines it will no longer pursue the project. The Coalition argues the PSC "should also consider whether a QF should also be credited with the equivalent of avoided transmission costs, given the linkage that exists between the 2021 Wyoming wind resource and the related transmission capability."²²

If the PSC concludes the 2021 Wyoming wind resource is deferrable, the DPU agrees with the Coalition that QFs should be provided avoided transmission costs. However, if the PSC concludes the opposite, there should be no avoided transmission cost associated with the Wyoming projects. At hearing, the DPU testified it does not oppose including the proposed 2021 Wyoming wind resource in the Proxy/PDDRR methodology for calculating avoided cost prices.

The OCS agrees with the Coalition's recommendation that if the PSC allows the 2021 Wyoming wind resource to be included in the determination of avoided costs, the resource should be removed from the avoided cost calculation if PacifiCorp decides not to pursue the projects. If the resource remained within the avoided cost calculation, but were not to be pursued,

²¹ *Supra* n.12 at 146, lines 21-25; at 147, lines 1-2.

²² *Id.* at 147, lines 2-6.

the OCS contends avoided cost prices would be overvalued and the ratepayer indifference standard would not be upheld.

At hearing, PacifiCorp testified Utah QFs do not displace or defer the proposed Wyoming wind resources because they do not interconnect with or use PacifiCorp's Wyoming transmission system. Even if this resource is considered deferrable, PacifiCorp argues the Aeolus to Bridger/Anticline transmission upgrade is not deferrable because it cannot be incrementally adjusted to a smaller size. PacifiCorp states the transmission upgrades, which enable interconnection of the 2021 Wyoming wind resources, provide additional benefits beyond the connection of the proposed wind project to PacifiCorp's system. First, the transmission additions provide incremental transfer capability for other resources such as PacifiCorp's existing wind resources and the Dave Johnston, and Wyodak coal plants. This additional transfer capability creates additional customer benefits by allowing these low-cost resources to displace higher-cost resources elsewhere on PacifiCorp's system. Second, the transmission upgrades will result in reduced line losses and reduced transmission system derates. PacifiCorp maintains, therefore, if transmission costs are included in avoided costs, the lost transmission benefits described above should also be considered.

2. Findings and Conclusions

At hearing, PacifiCorp testified it is pursuing the proposed 2021 Wyoming wind and transmission project because it, like all deferrable renewable IRP resources, represents a least-cost, least-risk resource within the IRP preferred portfolio. PacifiCorp also testified once it completes its Request for Proposals (RFP) process and selects a resource, that resource will no

longer be deferrable. Until such time, PacifiCorp acknowledges it is possible other resources, including a QF, may defer a resource being considered in the RFP process.

No party disputes PacifiCorp's assertion that the Proxy/PDDRR method assumes a QF can partially displace its next planned resource to the extent of that QF's aggregate capacity value, even if the size of that resource cannot be modified. In addition, and as noted above, we reaffirm our August 2013 Order determination that when the IRP preferred portfolio includes renewable resources, a renewable QF of a "like" type is capable of partially displacing or deferring that resource.

To ensure consistency with the approved Proxy/PDDRR methodology, when PacifiCorp seeks approval of a renewable resource under the approved RFP process that appears as part of the IRP Preferred Portfolio, we find a renewable QF with similar operational characteristics is capable of partially deferring or displacing that resource until a final PSC determination is made concerning the resource. At this time, therefore, we determine PacifiCorp's proposed 2021 Wyoming wind and transmission resources to be deferrable by potential wind QFs for the purposes of determining avoided cost prices until the PSC issues a final determination on these resources or if PacifiCorp independently determines it will no longer pursue these resources.

We agree with PacifiCorp that there are potential benefits associated with the transmission upgrades enabling interconnection to the 2021 Wyoming wind resources, including incremental transfer capability to other PacifiCorp resources, reduced line losses, and reduced transmission system derates. Therefore, we order lost transmission benefits should be considered in the determination of avoided costs to the extent the 2021 Wyoming wind resources are deferred.

D. Application of Proxy/PDDRR Method to Schedule 37 QFs – Consistency with Schedule 38

1. Parties' Positions

With the inclusion of cost-effective renewable solar resources in the 2017 IRP preferred portfolio, PacifiCorp proposes that Schedule 37 rates specific to each resource type be calculated using the Proxy/PDDRR methodology approved by the PSC for determining non-standard Schedule 38 avoided cost prices. As with PacifiCorp's proposed changes to Schedule 38, renewable resources would partially displace the next deferrable "like" renewable resource identified in the 2017 IRP preferred portfolio, adjusting for differences in relative capacity contribution between the QF resource and the corresponding IRP renewable resource, and after accounting for the queue of potential QFs. For non-renewable QF resources, or if no "like" renewables remain in the 2017 IRP preferred portfolio through the expected term, the QF would partially displace the next deferrable major thermal resource, again based on the QF's capacity contribution and after accounting for the queue of potential QFs.

As noted above, PacifiCorp's proposed Schedule 37 avoided cost calculations account for the queue of potential QF resources, similar to the Schedule 38 methodology. PacifiCorp notes it is likely to acquire additional resources during the effective period of the Schedule 37 rates, either through QF resources or through RFP-based acquisitions. As a result, PacifiCorp claims avoided cost calculations must account for the impact of these potential resource additions to prevent Schedule 37 prices from being overstated.

As it relates to Schedule 37, PacifiCorp argues the Proxy/PDDRR methodology better captures the specific operational characteristics of different QF resource types than the current

Schedule 37 methodology. PacifiCorp claims adopting the Proxy/PDDRR methodology to determine avoided cost pricing for Schedule 37 QFs is more consistent with the customer indifference standard.

The DPU supports PacifiCorp's proposal to use the Proxy/PDDRR approach with a like proxy resource to calculate Schedule 37 avoided cost prices. The DPU agrees this approach is appropriate now that the current IRP preferred portfolio contains cost-effective renewable resources.

UCE recommends no changes to Schedule 37, except for an unspecified adjustment to Schedule 37 rates to account for avoided line losses for Schedule 37 QFs not connected to the transmission system. UCE argues PacifiCorp's proposal to apply the Schedule 38 pricing method to Schedule 37 is inappropriate and that doing so would result in artificially low prices for small QFs. UCE contends the Proxy/PDDRR methodology is more complex and more difficult to review. UCE argues there is no need for such a complicated process, since the annual sum of the capacity under Schedule 37 QFs is capped at 25 MW, a cumulative amount that is less than many single Schedule 38 QFs.

The Coalition claims PacifiCorp has not demonstrated its proposal to adopt the Proxy/PDDRR methodology for Schedule 37 would result in more accurate avoided cost rates for small QFs. The Coalition recommends the PSC direct PacifiCorp to continue to use the current GRID/Proxy methodology for setting small Schedule 37 QF rates, with a capacity equivalence adjustment that allows renewable resources of all types to be deferred rather than adopt the Proxy/PDDRR methodology used for Schedule 38 QF rates. Like UCE, the Coalition argues the PDDRR methodology is complex and is not transparent, and claims interested

stakeholders must obtain expensive experts to evaluate the PDDRR configuration to determine if PacifiCorp's avoided cost price updates are accurate.

The Coalition recommends if the PSC adopts the Proxy/PDDRR method for calculating Schedule 37 avoided costs, the "like-for-like" restriction should be removed, as this would result in a more reasonable and equitable treatment of PacifiCorp's avoided costs.

According to PacifiCorp, UCE and the Coalition provide no evidence the current Schedule 37 GRID/Proxy methodology produces a more accurate forecast of avoided costs than the Schedule 38 Proxy/PDDRR method. PacifiCorp asserts the current Schedule 37 GRID/Proxy method is less accurate than the current Schedule 38 method because it calculates a single monthly avoided cost based on the generation of a baseload resource and thus does not accurately reflect the generation profiles of wind and solar resources. In addition, during the period when PacifiCorp is resource deficient, the current Schedule 37 method calculates avoided costs based on the fixed and variable costs of a thermal proxy. Because of this, the current method fails to account for the benefits associated with PacifiCorp's ability to dispatch the thermal resource up or down in response to resource needs and market prices.

2. Findings and Conclusions

With the 2017 IRP preferred portfolio containing a number of different renewable resources, and in consideration of our rationale for affirming the current Proxy/PDDRR approach used for Schedule 38 QFs, we agree a change in Schedule 37 is needed to align the methodologies for determining avoided cost prices for both small and large QFs. No party has provided evidence sufficient for us to conclude different methodologies for determining Schedule 37 and Schedule 38 avoided cost prices should be maintained considering the current

IRP preferred portfolio. Additionally, PacifiCorp testifies the current Schedule 37 GRID/Proxy method is less accurate than the Proxy/PDDRR method. We therefore approve PacifiCorp's proposal that Schedule 37 rates specific to each resource type be determined using the Proxy/PDDRR methodology.

E. Schedule 37 Queue

1. Parties' Positions

Similar to Schedule 38, PacifiCorp proposes Schedule 37 avoided cost calculations account for the queue of potential QF resources. PacifiCorp asserts an accurate forecast of avoided costs must account for the impact of QF resources in the QF queue. PacifiCorp notes it is likely to acquire additional resources during the effective period of the Schedule 37 rates, either through QF resources or through RFP-based acquisitions. As a result, PacifiCorp claims avoided cost calculations must account for the impact of these potential resource additions to prevent Schedule 37 prices from being overstated.

In its initial May 2017 filing in Docket No. 17-035-T07, PacifiCorp's Schedule 37 avoided cost calculations were based on the assumption Schedule 37 QFs are placed at the end of the QF queue that included the capacity of all signed and potential QF contracts. In response to party concerns, PacifiCorp's August filing proposes Schedule 37 rates based on a queue that only includes higher-queued resources from the May filing that had not dropped out of the queue or had been moved to the end of the queue. PacifiCorp claims this represents a point in the middle of the queue and will more accurately represent PacifiCorp's avoided costs between now and the next Schedule 37 tariff update.

The DPU contends since QFs with signed contracts and those actively negotiating a PPA are included in the GRID model as inputs when calculating avoided costs, their impact on the starting dates of the IRP resource deficiency period should not be ignored. The DPU, therefore, supports making changes to Schedule 37 to account for the pricing queue, but does not necessarily support moving potential Schedule 37 QFs to the end of the queue. The DPU recommends, in the interest of gradualism, Schedule 37 QFs assume a position at the midpoint of the queue. The DPU recommends potential adjustments from this midpoint position be evaluated in future years.

The OCS also believes including Schedule 37 QFs in the QF queue is appropriate. However, the OCS contends placing Schedule 37 QFs at the end of the queue may be extreme and would likely not produce the most reasonable results. At hearing, the OCS testified it supports the DPU's midpoint recommendation, expressing concern that if pricing is based on a number of QFs that ultimately leave the queue, Schedule 37 avoided cost prices will not be appropriate.

UCE argues there is no justification for making smaller, simpler projects eligible for published, standard rates subordinate to a queue of projects that must undergo complicated, often lengthy contract negotiations. According to UCE, PacifiCorp's placement of Schedule 37 QFs at the end of the queue implies all large QFs in the queue will get built ahead of them. UCE contends this assumption is unreasonable, arguing PacifiCorp's proposal may actually harm ratepayers by preventing lower cost resources from being built. At hearing, UCE testified its primary position is that if Schedule 37 QFs are included in the queue, the annual 25 MW cap for Schedule 37 QFs should be eliminated.

The Coalition states by assuming every single request for pricing will result in corresponding power sales, PacifiCorp artificially lowers its avoided cost rates. The Coalition believes a more reasonable queue position for Schedule 37 QFs should be based on the historic percentage of QFs constructed relative to the entire queue, or based on certain completion milestones that show a proposed project is likely to be constructed, such as a potential QF's completion of the interconnection study process or executed QF contracts.

2. Findings and Conclusions

No intervening party agrees with PacifiCorp's initial placement of Schedule 37 QFs at the end position in the queue, expressing concern about how such placement would impact Schedule 37 QF avoided cost pricing. At hearing, PacifiCorp agreed using the entire QF queue is inappropriate for setting Schedule 37 rates.

While including Schedule 37 QFs in the queue appears to be reasonable to account for the conditions PacifiCorp expects to occur during the term of the Schedule 37 tariff and for how resources should be displaced within the Proxy/PDDRR methodology, no party has provided a sufficiently detailed proposal to determine where the Schedule 37 QFs should be placed in the queue. We view PacifiCorp's proposal as a one-time adjustment that, in essence, places Schedule 37 QFs at the end of the queue going forward. In addition, we conclude the DPU's placement of Schedule 37 QFs at the queue's midpoint lacks sufficient basis. Similarly, the Coalition's recommendation to establish queue position based on the historic percentage of QFs constructed relative to the entire queue or upon QF completion milestones provides no specific recommendation upon which a historical percentage of QFs completed or completion milestones

should be based. Nor does it demonstrate how such a recommendation would be implemented within avoided cost rates.

Due to the lack of sufficient evidence or a clearly defined process concerning the placement of Schedule 37 QFs in the queue when calculating Schedule 37 pricing, we decline to adopt any of the parties' proposals at this time. We encourage parties to explore this issue in future proceedings.²³ Schedule 37 projects will not, at this time, be priced subject to a pricing queue.

F. Avoided Cost Price Floor

1. Parties' Positions

UCE recommends when proxy renewable resources appear in the IRP preferred portfolio, any renewable QF resource should receive a capacity payment during the period when PacifiCorp is resource deficient. Under UCE's proposal, avoided costs would be calculated based on the Proxy/PDDRR methodology, using the next deferrable IRP thermal resource to establish the capacity payment. UCE then recommends establishing an avoided cost price "floor" based on the levelized cost of a proxy IRP preferred portfolio renewable resource during the years in which the renewable resource appears. This avoided cost price floor would then be applied to a renewable QF, with adjustments made for relevant differences between the QF resource and the IRP resource.

PacifiCorp testifies UCE's renewable price floor proposal would produce inaccurate avoided costs by ignoring geographic and operational differences between renewable resources

²³ As parties continue to explore this issue, another option to consider might be determining Schedule 37 avoided cost prices based on a pricing queue that accounts for executed QF contracts only.

and by failing to account for the aggregate effects of QFs on PacifiCorp's portfolio and system. PacifiCorp claims it is possible a thermal resource and a renewable resource of a type comparable to the QF may simultaneously appear in the IRP preferred portfolio in the year of resource deficiency. Under UCE's proposal in such a situation, PacifiCorp maintains the QF could be paid higher avoided costs based on the deferred thermal resource rather than the IRP resource more comparable to the QF resource type. PacifiCorp contends customers should not "pay more as a result of 'adjustments' to a mismatched resource than they would have paid for [a] more closely matched resource."²⁴ Further, PacifiCorp argues "to the extent the IRP evaluated resource options that are of the same type and location as a QF," the absence of such resource options in the IRP preferred portfolio is evidence such resource costs are in excess of avoided costs.²⁵ PacifiCorp maintains UCE has not provided any supporting documentation or calculations in support of its proposal sufficient to determine whether ratepayer indifference is maintained.

2. Findings and Conclusions

We agree each renewable resource appearing in the IRP preferred portfolio provides benefits unique to that resource and that these benefits were considered in the process that led to the resource's selection and inclusion in the preferred portfolio. UCE's proposed avoided cost price floor lacks sufficient detail to allow us to determine that the avoided cost payments a QF receives would accurately reflect the costs and characteristics of a corresponding cost-effective IRP resource. Since a determination cannot be made on whether such an approach would lead to

²⁴ Rebuttal Testimony of Daniel J. MacNeil, at 18, lines 375-376, filed October 31, 2017.

²⁵ *Id.* at 4, lines 80-84.

just and reasonable avoided cost rates, we decline to adopt UCE's avoided cost price floor proposal.

G. Renewable Avoided Cost Rates

1. Parties' Positions

The Coalition argues that regardless of whether the current Grid/Proxy approach or a Proxy/PDDRR methodology is used, all renewable QFs under Schedules 37 and 38 should have the option of being compensated on either a renewable avoided cost rate or a non-renewable avoided cost rate when PacifiCorp is planning to acquire new renewable resources. The Coalition argues renewable rates are justified because renewable QFs help utilities meet their load requirements, meet renewable portfolio standard (RPS) requirements, and maintain a diverse portfolio of resources. The Coalition also asserts renewable avoided cost rates are justified since renewable QFs help PacifiCorp defer or avoid planned acquisition of renewable resources.

Accordingly, the Coalition suggests renewable rates be based on the costs of PacifiCorp's next planned renewable resource acquisition. If the QF is paid a renewable rate, the Coalition recommends it should be required to transfer its RECs to PacifiCorp during the period the QF is deferring PacifiCorp's planned acquisition of a renewable resource. When the renewable QF is paid a non-renewable rate based on the costs of market purchases and a gas plant, the QF would retain the RECs associated with their output.

UCE agrees with the Coalition that the PSC should allow QFs to choose between renewable and non-renewable avoided cost rates. Allowing QFs to choose between a renewable and a non-renewable rate is likely a more "durable" solution than an avoided cost price floor,

according to UCE. This would be the case, especially if the QF gives up its RECs in exchange for the renewable avoided cost rates.

PacifiCorp claims the Coalition's recommendation to allow Utah QFs to choose between renewable and non-renewable avoided cost rate options should not be adopted because it is not consistent with PURPA regulations and FERC precedent. PacifiCorp states it has no obligation under PURPA to pay more for renewable resources in Utah than the costs it would otherwise incur, noting it has no RPS or any other obligation to procure renewable resources in Utah. PacifiCorp contends there is no basis for paying different prices for renewable and non-renewable resources, because system operations and dispatch would be the same for a given project regardless of renewable energy credit ownership.

The DPU recommends the PSC reject the Coalition's renewable avoided cost rate proposal, arguing this approach is contrary to the ratepayer indifference standard and may lead to gaming in the calculation of avoided costs.

The Coalition counters a separate renewable rate is not inconsistent with PURPA's customer indifference standard and argues an RPS obligation is not required to justify a separate renewable avoided cost rate. The Coalition asserts if the PSC declines to adopt a separate renewable rate, it must include cost-effective renewable resource acquisition in PacifiCorp's avoided cost pricing to ensure the customer indifference standard is met.

2. Findings and Conclusions

We find the Coalition's recommendations on this issue to be conceptual in nature and lack sufficient detail for evaluation and implementation within either Schedule 37 or Schedule 38. In addition to concerns raised by PacifiCorp and the DPU regarding potential ratepayer

indifference impacts associated with differential avoided cost rates, PacifiCorp states there are significant differences between PacifiCorp's renewable rates and standard Schedule 37 rates in other jurisdictions. Absent a detailed proposal for evaluation by parties, we decline to adopt a renewable avoided cost option for either the Schedule 37 or Schedule 38 avoided cost methodologies.

H. Avoided Line Losses

1. Parties' Positions

UCE claims since Schedule 37 projects are able to deliver electricity to load without using the transmission system, they avoid associated line losses. UCE therefore recommends small QFs not interconnected to the transmission system should be credited for avoiding transmission line losses. UCE, however, does not specify how a line loss adjustment should be calculated.

DPU agrees with UCE's assertion, claiming if a small QF is built within the distribution system, presumably it is not using the transmission system and there will be no transmission loss associated with delivery of its output to load. The DPU agrees avoided cost rates for these QFs should reflect an appropriate credit associated with avoided line losses.

PacifiCorp argues that simply because a QF is connected to the distribution system does not ensure line losses will be avoided. PacifiCorp claims the addition of a QF may result in a surplus of resources that would need to be exported to another load area, potentially creating more losses than would have otherwise occurred had the same resource been interconnected to the transmission system directly. PacifiCorp suggests this issue would be better addressed in the forthcoming Export Credit Proceeding in Docket No. 17-035-61.

The DPU claims it is unaware of any instance where the addition of a new resource resulted in a resource surplus requiring export to another area thereby causing increased line losses. Unless PacifiCorp provides evidence for this assertion, the DPU maintains its support of UCE's line loss proposal.

At hearing, PacifiCorp testified it did not know the number of Schedule 37 projects connected directly to PacifiCorp's distribution system. In addition, UCE testified it did not know the number of Schedule 37 projects connected to the transmission system.

2. Findings and Conclusions

The record before us is insufficient for us to conclude UCE's proposal is reasonable and should be implemented for Schedule 37. We direct PacifiCorp to evaluate this issue prior to the next Schedule 37 filing and encourage parties to explore this issue further in the current Export Credit proceeding in Docket No. 17-035-61.

I. Removal of PTCs from the Levelized Avoided Cost Calculation

1. Parties' Positions

Under the current Proxy/PDDRR methodology, tax credits are spread over the life of the asset. Because the PTC benefits associated with the 2021 Wyoming wind resources will be received in the first ten years of operation, PacifiCorp now proposes to reflect these benefits over a ten-year period. PacifiCorp maintains this method reflects the actual timing of tax credit benefits.

The Coalition asserts this is an ad-hoc adjustment that removes the PTCs from the real levelization price stream, while at the same time maintaining the real levelization for the fixed capital cost of the resource. The Coalition contends this change is not consistent with the IRP

and is likewise inconsistent with PacifiCorp's current real levelization pricing approach for calculating avoided cost pricing in Utah.

The Coalition claims PacifiCorp models PTCs and capital costs in the IRP using a thirty-year real levelization approach "to make projects of disparate life expectancies comparable."²⁶ The Coalition argues PacifiCorp's proposal to measure PTC values only over the first ten years of the project has the effect of "fully loading these costs into the first ten years rather than spreading them out over the life of the deferred asset using the real levelization technique."²⁷ The Coalition argues since the contract life of a standard QF contract is considerably shorter than the life expectancy of the deferred plant, the capacity cost assumed by ratepayers over the first fifteen years of the life of a PacifiCorp-owned asset is greater than the capacity cost of a fifteen-year QF contract that is based on the avoided cost of that same PacifiCorp-owned asset.²⁸

The Coalition argues if real levelization is to continue to be used for avoided capacity cost pricing, then it should likewise continue to be used for avoided PTC valuation, consistent with the IRP. The Coalition argues 10-year levelization for avoided PTC valuation unfairly disadvantages a QF and should be rejected.

2. Findings and Conclusions

No party disputes the Coalition's testimony that the capacity payment a QF receives is calculated on a real levelized basis. Furthermore, the total resource costs for supply-side resource options represent real levelized values that are inputs for PacifiCorp's IRP modeling in

²⁶ Surrebuttal Testimony of Neal Townsend at 4, line 88, filed November 21, 2017.

²⁷ *Id.* at 5, lines 91-93.

²⁸ *See* Direct Testimony of Neal Townsend at 24, lines 527-531, filed October 3, 2017.

determining the preferred portfolio.²⁹ These costs include PTC values for wind resources.³⁰ At hearing, PacifiCorp testified: “[T]o the extent we want to acquire resources...we use the same models that we use in the IRP.”³¹

Since the Proxy/PDDRR methodology draws upon the optimized IRP preferred portfolio, established on the basis of levelized input values, we find such values should be consistently applied in the determination of avoided cost prices. No party rebuts the Coalition’s argument that if real levelization is to be used for avoided capacity cost pricing, then it should likewise be used for avoided PTC valuation, consistent with the IRP. We therefore reject PacifiCorp’s proposed removal of PTCs from the calculation of real levelized avoided cost prices.

ORDER

Pursuant to our discussion, findings and conclusions, we:

1. approve undisputed routine and non-routine updates used in the calculation of avoided cost pricing;
2. approve PacifiCorp’s proposal for REC ownership for Schedule 37 and 38 QFs;
3. approve PacifiCorp’s interpretation and application of the Proxy/PDDRR Method;
4. direct PacifiCorp to include its proposed 2021 Wyoming wind and transmission resources as deferrable resources in the determination of avoided cost prices for wind QFs until the PSC issues a final determination on these resources or unless PacifiCorp determines it will no longer pursue these resources.

²⁹ See PacifiCorp’s 2017 IRP, p. 101.

³⁰ See PacifiCorp’s 2017 IRP, Table 6.2, p. 111.

³¹ *Supra* n.12 at 31, lines 23-25; at 32, line 1.

5. direct PacifiCorp to include lost transmission benefits in the determination of avoided costs to the extent the 2021 Wyoming wind resources are deferred.
6. approve PacifiCorp's proposal to calculate avoided cost pricing for QFs under Schedule 37 using the Proxy/PDDRR method consistent with Schedule 38 with certain exceptions;
7. decline to adopt a change in the queue position used in the calculation of Schedule 37 pricing;
8. decline to adopt proposals regarding an avoided cost floor or renewable avoided cost rates;
9. decline to include avoided line losses in Schedule 37 pricing and direct PacifiCorp to study this issue and present information on the extent to which Schedule 37 QFs connected at the distribution level avoid line losses, in its 2018 Schedule 37 pricing update;
10. deny PacifiCorp's proposal pertaining to the treatment of PTC values in the calculation of avoided costs; and
11. direct PacifiCorp to file updated Electric Service Schedule Nos. 37 and 38 consistent with this order, within 30 days.

DOCKET NOS. 17-035-T07 and 17-035-37

- 35 -

DATED at Salt Lake City, Utah, January 23, 2018.

/s/ Thad LeVar, Chair

/s/ David R. Clark, Commissioner

/s/ Jordan A. White, Commissioner

Attest:

/s/ Gary L. Widerburg
PSC Secretary
DW#299311

CERTIFICATE OF SERVICE

I CERTIFY that on January 23, 2018, a true and correct copy of the foregoing was delivered upon the following as indicated below:

By Electronic-Mail:

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

Jana Saba (jana.saba@pacificorp.com)
Yvonne Hogle (yvonne.hogle@pacificorp.com)
Daniel Solander (daniel.solander@pacificorp.com)
Rocky Mountain Power

J. Craig Smith (jcsmith@smithlawonline.com)
Adam S. Long (along@smithlawonline.com)
Smith Hartvigsen, PLLC

John Lowe (jravensanmarcos@yahoo.com)
Renewable Energy Coalition

Irion Sanger (irion@sanger-law.com)
Sanger Law, P.C.

Gary Dodge (gdodge@hjdllaw.com)
Kevin Higgins (khiggins@energystrat.com)
Neal Townsend (ntownsend@energystrat.com)
Utah Association of Energy Users

Sophie Hayes (sophie@utahcleanenergy.org)
Kate Bowman (kate@utahcleanenergy.org)
Utah Clean Energy

Jennifer Gardner (jennifer.gardner@westernresources.org)
Nancy Kelly (nancy.kelly@westernresources.org)
Penny Anderson (penny.anderson@westernresources.org)
Western Resource Advocates

Gloria Smith (gloria.smith@sierraclub.com)
Travis Ritchie (travis.ritchie@sierraclub.com)
Sierra Club

Michael Shea (michael@healutah.com)
HEAL Utah

Patricia Schmid (pschmid@agutah.gov)
Justin Jetter (jjetter@agutah.gov)
Robert Moore (rmoore@agutah.gov)
Steven Snarr (stevensnarr@agutah.gov)
Assistant Utah Attorneys General

Erika Tedder (etedder@utah.gov)
Division of Public Utilities

By Hand-Delivery:

Office of Consumer Services
160 East 300 South, 2nd Floor
Salt Lake City, UT 84111

Administrative Assistant