State of Utah
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Division of Public Utilities

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ACTION REQUEST RESPONSE

To: Public Service Commission

From: Division of Public Utilities
Chris Parker, Director
Artie Powell, Manager
Charles Peterson, Technical Consultant
Sam Liu, Utility Analyst

Date: September 24, 2012

Re: **Docket No. 12-999-01, Re: 03-035-14**, Quarterly Compliance Filing – 2012.Q2 Avoided Cost Input Changes.

RECOMMENDATION (Acknowledgement with change for future filings)

The Division has reviewed the Rocky Mountain Power's (Company) Quarterly Avoided Cost Compliance filing for the second quarter 2012 (filed June 29, 2012). The Division recommends that the Commission acknowledge the Company's second quarter filings as in compliance with the Commission's Order in Docket No. 03-035-14. The Division also recommends that in future avoided cost compliance filings the Company provide calculations for wind QFs consistent with the Commission's September 20, 2012 Order in Docket No. 12-2557-01 and using the Proxy/PDDRR methodology used in this compliance filing.

ISSUE

On June 29, 2012, the Company filed its Quarterly Compliance Filing – 2012.Q2 Avoided Cost Input Changes (Compliance Filing). On July 10, 2012, the Commission issued the Division an Action Request due September 10, 2012. The Division requested and was granted an extension of the due date to September 24, 2012. In addition to the overview of this filing, the Commission requests the Division review and provide comments on the appropriateness and relevance of Rocky Mountain Power's method in determining Illustrative Wind Avoided Costs now that the Company's owned and contracted wind resources exceed the 1,400 MW wind IRP target identified in the Commission's October 31, 2005 Order in Docket No. 03-035-14, in light of the current IRP target amount. This memorandum represents the Division's response to the Commission's Action Request.

As mentioned above, the Company provided additional calculations in Appendix D, illustrative of wind pricing under the Proxy/Partial Displacement Differential Revenue Requirement method (Proxy/PDDRR). The Division believes that wind pricing is accurately represented based upon that method. However, on September 20, 2012, the Commission issued an Order in Docket No.12-2557-01 that indicated that the Proxy/PDDRR method would not be used for wind, thus the Commission itself answered the question regarding the appropriateness of the Appendix D illustrative wind pricing. For future compliance filings, the Division believes that it would be useful to parties to have calculations from both the Proxy/PDDRR method and the method consistent with the Commission's September 20, 2012 Order in Docket No. 12-2557-01 for wind QFs.

DISCUSSION

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

The Division reviewed and checked the accuracy and reasonableness of the calculations in the attachments to the Company's June 29, 2012 filing. As part of its investigation, the Division held a conference call on September 24, 2012 and informally reviewed with Company representatives certain questions the Division had. The Division's questions were answered to its satisfaction.

The Division noted that the Company has made updates to the inputs to its model. These updates included using the Company's most recent, May 2012, forward price curve; the deferrable resources are updated to the 2011 IRP Update that was filed with the Commission on March 30, 2012;[1] other changes generally tied to the 2011 IRP Update; potential environmental costs were revised as of May 2012; and a May 2012 inflation study, which is little different from previous inflation rates. Certain prospect projects that were previously included in the queue have been deleted and two new projects were added. The Division believes these updates are reasonable.

The Division notes that this and previous compliance filings were based, in part, on the Company's November 2011 retail load forecast. As was recently announced in the Company's 2013 IRP meeting on September 14, 2012, the Company no longer considers that forecast to be reasonable and has significantly reduced its load forecast going forward. The principal driver of this reduced load forecast is the greatly reduced expectation of industrial load growth combined with the removal of Kennecott's load beginning in 2015.[2] All else being equal, the Division would expect that the next avoided cost compliance filing will reflect this reduced load forecast with lower avoided costs.

[1] "During the period 2013 through 2015 the proxy will be third quarter high load hour only front office trades and starting June 2016 the proxy is a 597 MW combined cycle combustion turbine (CCCT). Both proxy resources are listed in Table 5.5 of the IRP Update." (see Compliance Filing, page 1).

[2] It remains an open question whether or not the Company will be supplying back-up power to Kennecott after it goes off line, and if so, what the effects on the Company's system resource needs will be.

CONCLUSION

Based upon the Company's response to the issue presented by the Commission, the Division believes that the updates to the inputs of the avoided cost calculation are reasonable and the avoided cost prices are calculated according to the Commission approved methodology. The exception is the suggested wind methodology which the Commission has determined to be inappropriate at this time. Therefore, the Division recommends that the Commission acknowledge the Company's quarterly Compliance Filing as submitted by the Company. The Division also recommends that in future avoided cost compliance filings the Company provide calculations for wind QFs consistent with the Commission's September 20, 2012 Order in Docket No. 12-2557-01 and using the Proxy/PDDRR methodology used in this compliance filing. The Division believes that having the two different wind calculations for comparison will be useful to interested parties.

CC:
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