ROCKY MOUNTAIN POWER
A DIVISION OF PACIFICORP

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IDAHO PUBLIC UTILITIES COMMISSION

September 18, 2009

VIA OVERNIGHT DELIVERY

Jean D. Jewell
Commission Secretary
Idaho Public Utilities Commission
472 W. Washington
Boise, ID 83702

**RE: Rocky Mountain Power's Comments in Case No. GNR-E-09-03
Notice of Review of Avoided Cost Methodology**

Dear Ms. Jewell:

Pursuant to the Commission's notice of review of the Surrogate Avoidable Resources (SAR) methodology for calculating published Avoided Cost Rates. PacifiCorp, dba Rocky Mountain Power, hereby submits for filing an original and seven (7) copies of the Company's comments.

The Company's comments are responsive to the directives contained in Order No. 30873 issued August 6, 2009 by the Commission for consideration; does the present SAR methodology for published avoided cost rates need to be modified.

Any informal inquiries related to this application should be directed to:

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Very truly yours,

Ted Weston / ca

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Attorney for Rocky Mountain Power

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF A REVIEW OF THE	)	
SURROGATE AVOIDABLE RESOURCE	)	CASE NO. GNR-E-09-03
(SAR) METHODOLOGY FOR	)	ROCKY MOUNTAIN POWER'S INITIAL
CALCULATING PUBLISHED AVOIDED	)	COMMENTS
COST RATES	)	
	)	

On August 6, 2009, the Idaho Public Utility Commission ("Commission") issued Order No. 30873 which directed Avista, Idaho Power, and Rocky Mountain Power to provide responses to three questions concerning the current Surrogate Avoided Resource ("SAR") methodology. In compliance to Order No. 30873 Rocky Mountain Power ("RMP") submits its initial comments addressing the Commission's questions posed in this case.

I. Background

Order No. 30873 issued by the Commission described the history of avoided cost methodology in Idaho and how the SAR methodology was developed and has evolved since the early 1980's. In 1993, Case No. IPC-E-93-28 resulted in the Commission issuing an order establishing the surrogate avoided resource as a natural gas-fired combined cycle combustion turbine ("CCCT"). The order went on to state that, if in the future, the CCCT proves to not be a viable cost-effective resource, the Commission can seek to establish a new SAR. While recent orders by the Commission have attempted to provide modifications to the CCCT based avoided cost prices to accommodate intermittent resources such as wind, it has become obvious that a more appropriate SAR should be selected to reflect a wind resource.

By initiating this proceeding for standard QF projects, the Commission has acknowledged that the time is ripe to evaluate the type of generating resource that its jurisdictional utilities may avoid by purchasing energy from QFs, regardless of whether it is a thermal resource or an intermittent resource. Two major changes have occurred since the CCCT was selected as the SAR in 1993. First, the three Idaho electric utilities; Idaho Power, Avista, and Rocky Mountain Power, have each identified in their respective Integrated Resource Plans and other resource acquisition documents their intention to acquire, outside of PURPA, substantial amounts of power generated by renewable resources, principally from generation using wind as its motive force. Second, the implementation of state-mandated renewable portfolio standards (RPS) has come into play, requiring states to meet a schedule to supply a portion of their electric load with renewable energy. For example, RMP has state-mandated RPS goals and timetables in four of its six states (California, Oregon, Washington and Utah) and with a similar renewable energy standard (RES) under evaluation at the federal level, the Commission should include what the impact of RPS compliance goals will have on resource selection as a factor when considering a change to the SAR methodology. For all of these reasons, the Commission's decision to initiate this proceeding is both timely and appropriate.

II. Rocky Mountain Power's Response to the Commission Questions

The Commission's questions and a summary of RMP's responses are as follows:

1. "Does the present SAR methodology for published avoided cost rates need to be modified or augmented? Yes or No."

RMP's answer: Yes.

2. "If answer to Question 1 is yes,

2a. Please provide the basis for your answer."

RMP's answer:

2a. The current SAR methodology with its proxy resource as a natural gas-fired combined-cycle combustion turbine is an inappropriate benchmark for an intermittent resource such as wind for several reasons. Capital and O&M costs for wind resources vary significantly from the current CCCT SAR. Operating characteristics including capacity factor, control over motive force, and dispatchability are unlike the CCCT. Costs associated with integrating the wind resource as a network resource on the Company's grid are much higher than a CCCT. Finally, the CCCT SAR does not address issues associated with renewable resources such as the resource's environmental attributes or renewable energy credits ("RECs") ownership. As noted by the Northwest Planning and Conservation Council ("NPCC"), renewable resources, particularly wind, are playing a much greater role in the region's new energy sources. As the NPCC tracks these regional projects to update its assumptions in its power plans, its capital and operating cost assumptions for wind generation are a reflection of the region's wind development. RMP has seen the same impact in its renewable resource procurement. RMP, through its Integrated Resource Plan and competitive bidding process, is acquiring large amounts of power generated by renewable resources, principally from generation using wind as its motive force. In addition, the majority of RMP's QF project requests in Idaho over the past five years have been wind resources. What the Company is seeing is that its utility wind projects acquired through our competitive bidding process, both owned or through power purchase agreements, are being acquired by the Company at a lower cost than current Idaho avoided cost prices and these acquisitions also include those resource's RECs for the Company. Therefore, using a wind resource as a SAR will more equitably align the QF wind project with a proxy resource that the Company continues to acquire as identified in its Integrated Resource Plan on a competitive basis.

2b. "In broad and general terms, how should the methodology be modified or augmented?"

RMP's Answer:

2b. In general, RMP proposes that the Commission consider developing a separate SAR methodology for intermittent resources such as wind and retaining the existing SAR methodology for thermal and/or baseload QF projects. This would retain the current SAR methodology model but use two different surrogate avoided resources – one for wind and one for baseload thermal QF projects. Each methodology would use inputs and assumptions for its specific surrogate avoided resource from an independent source – the Northwest Planning and Conservation Council with specific adjustments unique to each utility. This approach would provide two separate tracks for standard QF projects seeking avoided cost prices. The result would establish two sets of avoided costs, one for intermittent wind resources and one for thermal/baseload resources. The specific utility adjustments that have been established in previous Commission orders would continue as appropriate in each methodology except it should be noted that the wind integration adjustment per Order No. 30497 would not be applied in the wind SAR methodology. Since the wind SAR methodology assumes that the surrogate avoided resource is a utility-owned wind resource and the utility is already bearing the cost of integration on its own resource, the wind integration adjustment normally applied per Order No. 30497 for the QF would cancel out and no longer be a necessary adjustment in the methodology.

The Commission has already established the use of two separate contract performance mechanisms for these two decidedly different QF projects – the mechanical availability guarantee ("MAG") for intermittent wind resources and the "90/110" performance band for thermal/baseload resources. Establishment of a separate SAR for a wind QF and for a thermal/baseload QF will provide additional alignment with standard QF contracting terms for each type of QF resource.

The following changes to the current SAR methodology are proposed for consideration to accommodate the intermittent wind resources cost and operating characteristics. These suggested changes are not to be considered all-inclusive but serve as a starting point on developing a separate wind SAR.

1. Create a separate Wind SAR methodology based upon the cost of a wind resource.
    a. Use existing Idaho approved SAR spreadsheet model

b. Wind SAR methodology cost inputs and assumptions would come from an independent source. Because the existing SAR methodology uses the Northwest Planning and Conservation Council inputs and assumptions, it is recommended that the Wind SAR methodology would also use the NPCC current wind assumptions, both methodologies would apply utility specific adjustments. These assumptions and inputs would be updated on a regular schedule as the NPCC provides updates and / or as utility specific adjustments change and are approved by the Commission.

   i. For example, the latest NPCC wind assumptions per NPCC Sixth Power Plan Appendix I

      1. Capital cost of approximately $1800/kW in 2009 price year (including AFUDC)
      2. Capital cost would be further reduced by available federal ITC (30%) or other tax treatments available
      3. Fixed O&M of $40.00 per kW-year
      4. Variable O&M of $2.00 per MWh
      5. Capacity factor of 38% capacity factor (eastern Wyoming assumption). This capacity factor assumption is a reflection of where RMP's avoided proxy resource would be located and has been demonstrated by the number of company-owned wind resources and PPAs acquired in Wyoming.

6. SAR heat rate is dropped to zero

c. The methodology would be applicable to QF projects coming online in 2010-2012 where there is certainty regarding federal tax credits and other tax treatments

d. SAR wind integration charge adjustment is removed since the utility surrogate resource is wind and the utility would bear the cost of integration for its own resource

e. Monthly on-peak and off-peak scalars would still apply to the resultant avoided cost prices

f. Contract terms for intermittent resources including a MAG provision would remain in the power purchase agreement

g. Environmental attributes or RECs from the QF resource would be assigned to the utility since the utility receives the RECs from its surrogate wind resource

2. Thermal and baseload QF resources would be evaluated using the existing SAR methodology model. The Company suggests the Commission consider revisiting the current market conditions and consider any further updates to the fuel price forecast from the latest NPCC power plan based the market conditions more reflective of the current economic and market conditions.

III. Grandfathering of QF Contracts During this Case Proceedings

The Company recognizes that the Commission has conducted such avoided cost investigations in the past and is willing to cooperate to achieve the best outcome for customers. Historically, the Commission has taken action to suspend the Company obligation to enter into new QF contracts or renew existing contracts for projects over 100 kilowatts until such time that the investigation was completed and the Commission had made a final determination regarding appropriate avoided cost rates. Order No. 30873 on page 3, states that, "As always the published rates remain presumptively reasonable and available to eligible QFs until changed" and although the Order does not contemplate any control mechanism for in-progress QF projects during this investigation, the Company seeks to address grandfathering of in-progress QF contracts during this investigation, to provide certainty to both the QF developers as well as its customers.

RMP makes this request for several reasons. First, the Company currently has requests from standard QFs, new and existing, in various stages of the contract process, from the initial request for information to the exchanges of draft power purchase agreements. Several are requests from proposed QFs seeking contracts for new projects with future on-line dates that have met few, if any, of the necessary milestones for execution. RMP does not know if this proceeding will result in a modified SAR methodology which produces avoided cost rates higher or lower than current rates. However, historically when avoided cost rate changes are being considered, the Company sees a significant increase in QF activity as developers seek to require utilities to enter into long-term contracts at current rates and lock in higher prices should a new SAR result in lower avoided cost rates.

Second, although many of these QFs, both existing and new, are required to complete a new or updated interconnection study and agreement, they are pushing to execute a power purchase agreement far in advance of finalizing a necessary interconnection agreement. The Company has serious concerns about executing QF contracts that may not receive interconnection agreements or may have interconnection and integration issues that are not addressed or acknowledged in the power purchase agreement. At a minimum, a moratorium on new contracts or any contract that has not substantially completed the interconnection process while the SAR methodology issues are resolved, would allow for substantial completion of interconnection milestones key to a successful project and power contract.

Third, establishing specific milestones and requirements for QF projects seeking to be grandfathered under the existing avoided cost rates is an effective means of ensuring QF projects close to completion with a majority of milestones met, can move forward while those that

For these reasons, the Company believes that the Commission should immediately consider establishing milestones that it would expect a QF developer to satisfy if the QF desires to be "grandfathered" to the existing rates. The Company requests that the Commission require QF developers to meet two milestones to be eligible for grandfathering at the existing rates.

1. The QF developer would be required to post security in the form of cash or an acceptable letter of credit in an amount equal to $20 per kW multiplied by the nameplate capacity of the generating project that the QF developer is seeking a power purchase

agreement for. This $20 per kW amount would be held as security and retained by the Company in the event the QF failed to diligently proceed through their interconnection application process, defaulted on the power purchase agreement, or if the QF failed to achieve its scheduled commercial operation date.

2. At the time the "grandfathered" power purchase agreement is executed, the QF, at a minimum, must have completed its feasibility study report in the interconnection process. In addition, at all times, the QF developer provide regular updates on its interconnection process and show steady progress in the interconnection queue until it executes a generation interconnection agreement. A specific milestone schedule will be developed with the QF and monitored by the Company. In the event, the developer does not meet its scheduled milestones, including failure to execute a generation interconnection agreement, the "grandfathered" power purchase agreement would be terminated, grandfather status revoked, and the utility would retain the $20 per kW security amount previously described.

RMP notes that there may be other issues that need to be addressed with respect to "grandfathering" of QF contracts while the Commission considers the modifying the SAR.

CERTIFICATE OF SERVICE

I hereby certify that on this 18th day of September, 2009, I caused to be served, via E-mail, a true and correct copy of Rocky Mountain Notice of Review of Avoided Cost Methodology in GNR-E-09-03 to the following:

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