BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION



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| IN THE MATTER OF A REVIEW OF THE SURROGATE AVOIDABLE RESOURCE (SAR) METHODOLOGY FOR CALCULATING PUBLISHED AVOIDED COST RATES | ) | CASE NO. GNR-E-09-03<br>ROCKY MOUNTAIN POWER'S COMMENTS REGARDING THE COMMISSION STAFF'S STRAWMAN WIND SAR PROPOSAL |

On May 27, 2010, the Idaho Public Utility Commission ("Commission") Staff prepared a Strawman Wind SAR Proposal ("Strawman") at the direction of the Commission and issued it to Parties in Case No. GNR-E-09-03 for comments. In response to Staff's request, Rocky Mountain Power ("RMP") hereby submits its comments addressing the Staff's Strawman Wind SAR Proposal in this case.

## I. Background

Staff's Strawman Wind SAR Proposal utilizes the same spreadsheet model as the current SAR methodology. Under the current SAR methodology the proxy resource is a natural gas-fired combined-cycle combustion turbine and major cost assumptions are developed uniformly for all Idaho utilities using regional data from the Northwest Power and Conservation Council ("NPCC"). Under the wind SAR methodology, the same type of approach is taken; however, the categories of assumptions have been modified and expanded and the assumptions for the wind turbines are general, not specific to any one turbine manufacturer or utility. A comparison between the current SAR methodology and the Strawman for the categories of assumptions included in each methodology is shown below:

**SAR Methodology**

- Capital Costs
- Fixed O&M Costs
- Variable O&M Costs
- Fuel Costs

**Wind SAR Methodology**

- Capital Costs
- Fixed O&M Costs
- Variable O&M Costs
- Transmission Costs
- Tax Credits
- Wind Integration Costs
- Wind Forecasting Costs
- Renewable Energy Credits
- Other Assumptions
- Other Contract Terms

In general, RMP supports the Commission's directive to consider developing a separate SAR methodology for intermittent resources such as wind and retaining the existing SAR methodology for thermal and/or non-intermittent QF projects. The Strawman proposal by Staff is a strong first step in achieving that directive. As RMP addressed in its initial comments, each methodology should use inputs and assumptions for its specific surrogate avoided resource from an independent source, such as the NPCC, with specific adjustments or sources of assumptions that are unique to each utility. Ultimately, the methodology, as applied to a utility, should only represent costs that are being avoided by that specific utility. The result would establish two sets of avoided costs, one for intermittent wind resources and one for non-intermittent (e.g., thermal) resources. The

following summarizes the changes proposed by RMP in its initial comments to accommodate the intermittent wind resources cost and operating characteristics and reflect costs actually avoided by RMP.

1. Use existing Idaho approved SAR spreadsheet model.
2. Wind SAR methodology cost inputs and assumptions should come from an independent source. Because the existing SAR methodology uses the NPCC inputs and assumptions, it is recommended that the Wind SAR methodology would also use the NPCC current wind assumptions but also apply utility specific adjustments such as the impact of being a multi-state utility where a proxy resource may be located outside of Idaho with different characteristics such as capacity factor, wind integration costs, and lack of avoided transmission costs. 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.
3. 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. After 2012, the assumptions should be revisited to address any change to federal and/or other tax treatments as well as the underlying assumption that a specific type of resource is being avoided.
4. The Company agrees with staff's assessment that there should be an adjustment to take into account unavoidable integration costs. The Company addresses what that rate should be below, but generally, the Company believes that the current SAR wind integration charge adjustment understates the Company's costs.

5. Monthly on-peak and off-peak scalars would still apply to the resultant avoided cost prices
6. Contract terms for intermittent resources including the mechanical availability guarantee ("MAG") provision would remain in the power purchase agreement as well as other contractual terms and conditions designed to protect customers.
7. Environmental attributes or Renewable Energy Credits ("RECs") from the QF resource would be assigned to the utility since the utility receives the RECs from its surrogate wind resource. As discussed below, an adjustment should be included to take into consideration the fact that RMP customers receive RECs for the entire life of RMP's surrogate wind resource (initially 25 years), as compared to the RECs that RMP customers will receive only over the QF contract term.

RMP has organized its comments to address each of the individual categories of assumptions proposed in the Strawman.

**Capital Costs**

As Staff points out, the plant costs including capital and O&M and capacity factor have the greatest impact on avoided cost pricing under the wind SAR methodology. Market conditions are continually changing and as recent times have shown, turbine availability has increased and prices have declined. Staff's Strawman employs capital cost assumption from NPCC Sixth Power Plan of $2,149 per kW in 2010 dollars that reflect a sampling of regional as-built projects and pre-construction estimates without regard to a specific equipment manufacturer. RMP finds Staff's Strawman assumption acceptable for capital cost at the current time.

**Fixed O&M Costs**

The Strawman uses a fixed O&M of $40.93 per kW (2010$) from the NPCC Sixth Power Plan with an escalation of 1.90% per year. This assumption came from the NPCC, which used their Fifth Power Plan value for fixed O&M of $20 per kW and escalated forward based on the escalation of wind plant capital costs for the period 2004 through 2008. RMP believes this number is too high based on the fixed O&M costs observed for its own projects as well as data extracted from the EPRI TAG database, adjusted for current market conditions. The Company proposes using a fixed O&M cost more indicative of RMP specific avoided costs and closer to the range of its IRP value of $31.35 per kW (2010$).

**Variable O&M Costs**

The Strawman employs a variable O&M cost of $2.05 per MWh (2010$) to account for land lease or rent costs. The Company's actual and planned wind resources include wind resources located on Company-owned land. As such, the Company's O&M costs do not include these costs and, therefore, they should not be included as an avoided cost. The Company has an expressed preference for locating generation facilities on Company-owned land due to the lower cost for customers.

**Transmission Costs**

The Strawman proposes to apply a transmission cost associated with the proxy wind resource based on the assumption that the Idaho utilities are multi-jurisdictional and, as such, the avoided wind resource could be located in geographically remote areas not close to load, which would require transmission costs to move the resource to load.

This is a significant divergence from the current SAR methodology where no transmission cost is assumed for the avoided gas resource.

The assumption that avoided wind resources will also avoid transmission costs is not valid. In fact, wind resources planned through the Company's IRP process are located in Wyoming and the purchase of energy and RECs from a QF located in Idaho will not alter planned transmission enhancements associated with RMP's transmission system. RMP strongly disagrees with having a universal non-utility specific transmission cost adder for the surrogate avoided resource and suggests that any transmission cost adder should be specific to the utility and the geographical location of that utility's avoided resource. For RMP, the avoided wind resource is a resource located in Wyoming with a 35% capacity factor. As stated above, a QF located in Idaho will not avoid any transmission related costs. Furthermore, transmission upgrades required to enhance the transfer of power from Idaho to RMP's system have already been committed to. This further demonstrates that QFs located in Idaho will not avoid transmission costs.

**Tax Credits**

The Strawman applies three federal tax credit options: production tax credit of $21 per MWh for the first ten years of production; investment tax credit of 30%; and no tax credit at all. The Company agrees that these tax treatments and others as available should be considered; however, the wind SAR methodology should be applicable at this time to QF projects coming online in 2010-2012 where there is certainty regarding federal tax credits and other tax treatments. The Company agrees with the use of the 30% investment tax credit assumption and, after 2012, the tax-related assumptions should

be revisited to address any change to federal and/or other tax treatments or changes to the Company's plans for renewable resource acquisition.

**Wind Integration**

Staff has proposed having a wind integration charge apply as part of their Strawman with the cost being based on the current wind integration charge for each of the three Idaho utilities. RMP agrees with Staff's assessment. An adjustment to the QF price should be made for wind integration since wind integration costs are not avoidable. However, the Company believes the Strawman proposal of $6.50 per MWh is too low. For RMP, the appropriate utility specific wind integration cost is $11.72 per MWh (2010$) as determined by the Company's IRP for its planned wind resource additions. RMP's wind integration cost of $11.72 per MWh reflects the Company's most recently completed wind integration analysis and is consistent with the NPCC's Sixth Power Plan value of $11.69 per MWH (2010$).

**Wind Forecasting Costs**

The Strawman proposal includes an annual wind forecasting charge to be included and has proposed an annual fee of $3,500 per site. The Company finds this to be a reasonable assumption.

**Renewable Energy Credits ("RECs")**

Under the Strawman proposal, Staff has proposed a decision logic for the QF to select which SAR methodology they could use: (1) when wind SAR rates are higher than gas SAR rates, the QF, regardless of technology, can chose either SAR methodology assuming RECs go to utility with wind SAR and stay with QF for gas SAR; or (2) when gas SAR rates are higher than wind SAR rates, wind QFs must use the wind SAR

methodology. There is some slightly flawed logic in this. The Company's avoided wind resource results in RMP customers receiving RECs for the entire life of the resource (initially 25 years). For a wind QF, RMP customers should receive RECs in all cases. Under option (1), a gas turbine cogeneration plant that qualifies as a QF could select the wind SAR rates, yet would not be deemed renewable and generate no RECs. This defeats the purpose of comparing a QF to a similar avoided resource. The Company suggests that if this selection option is to be provided to the QF project that limits be placed around what QF technology would qualify for the wind SAR methodology and that technologies other than wind may need additional avoided cost adjustments to reflect the specific performance and operating characteristics of the technology. In addition, because customers receive REC benefits for the entire life of the Company's avoided wind resource (initially 25-years), there should be an adjustment to take into account that customers will only receive RECs over the QF contract term. This incremental cost to customers as a result of the wind QF should be reflected as a downward QF contract price adjustment based on an assumed REC value and the difference between the QF contract term and 25 years.

**Other Resource Assumptions**

Capacity Factor – One of the resource assumptions that is not addressed in detail in the Strawman proposal is the surrogate avoided resource capacity factor. Under the Strawman, a capacity factor of 30% is used, which comes from the NPCC Sixth Power Plan. A 30% capacity factor is materially lower than the Company's future planned wind resources. The Company's avoided wind resource is a resource located in Wyoming with an assumed capacity factor of 35%. Utilizing a capacity factor of 30% for the surrogate

will overstate avoided costs as applicable to RMP. As acknowledged by Staff in their proposal, capacity factor is one of the major assumptions that affects avoided cost pricing in the wind SAR methodology. Therefore, RMP proposes that capacity factor be a utility specific assumption and that for purposes of the wind SAR methodology, a capacity factor of 35% be used in the calculations of RMP's avoided cost.

Financial – The Strawman proposes using financial assumptions specific to the individual utilities. RMP is agreeable to this approach. The Company's IRP model reflects PacifiCorp's corporate inflation rate schedule and a single escalation rate value is used. This value, 1.9 percent, is estimated as the average of the annual corporate inflation rates for the period 2009 to 2030, using PacifiCorp's June 2008 inflation curve. However, the Strawman assumes the Company is avoiding a wind resource beginning as early as 2010. This is not the case. The Company's next planned wind resource that can be considered avoidable is a 2017 wind resource located in Wyoming with a capacity factor of 35%. Any payments made to a QF in advance of 2017 should be based on market with avoided wind cost payments beginning in 2017.

Dispatchability – The Company agrees with Staff regarding dispatchability. In the wind SAR methodology, since the avoided resource and the QF have similar capacity and dispatchability characteristics, there is no need to make adjustments to account for differences.

**Other Contract Terms**

Mechanical Availability Guarantee ("MAG") - The Commission has already established the use of two separate contract performance mechanisms for these two decidedly different QF projects – Mechanical Availability Guarantee for intermittent wind

resources and the "90/110" performance band for thermal/baseload resources. These two performance mechanisms should remain and establishment of a separate SAR for a wind QF and for a thermal/baseload QF will align standard QF contracting terms for each type of QF resource. In addition, there should be no changes to contractual terms or conditions that results in incremental risk to customers.

Time-of-Day and Seasonal Factors – Staff has proposed continuing to use the Monthly Price Multipliers as ordered for RMP in Docket PAC-E-07-13. RMP agrees that the time-of-day and seasonal shaping factors better reflect the value of the energy delivered to its system and supports the use of this as part of final pricing for a QF under the wind SAR methodology. As such, a QF would only receive the time of day and seasonal factors in their energy payments if actual deliveries occurred at those times, not on a prospective basis.

Rocky Mountain Power appreciates the opportunity to provide comments on Staff's Strawman proposal, and we look forward to working with the Commission and Staff to further refine the SAR methodology.

Please let me know if you have any further questions.

Very Truly Yours,

Jeffrey Larsen

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## CERTIFICATE OF SERVICE

I hereby certify that on this 18th of June, 2010, I caused to be served, via E-mail, a true and correct copy of Rocky Mountain Power's Comments Regarding the Commission Staff's Strawman Wind SAR Proposal in GNR-E-09-03 to the following:

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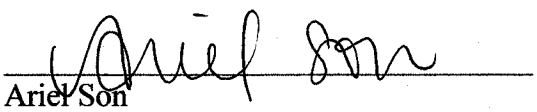

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