

Decision No. C13-1267

BEFORE THE PUBLIC UTILITIES COMMISSION OF THE STATE OF COLORADO

PROCEEDING NO. 11A-869E

IN THE MATTER OF THE APPLICATION OF PUBLIC SERVICE COMPANY OF COLORADO FOR APPROVAL OF ITS 2011 ELECTRIC RESOURCE PLAN.

PROCEEDING NO. 12A-782E

IN THE MATTER OF THE APPLICATION OF PUBLIC SERVICE COMPANY OF COLORADO FOR APPROVAL OF THE ACQUISITION OF THE BRUSH 1, 3, AND 4 GENERATION FACILITIES AND IN CONNECTION THEREWITH THE GRANT OF CERTIFICATES OF PUBLIC CONVENIENCE AND NECESSITY IF REQUIRED AND THE APPROVAL OF COST RECOVERY THROUGH A GENERAL RATE SCHEDULE ADJUSTMENT.

PROCEEDING NO. 12A-785E

IN THE MATTER OF THE VERIFIED APPLICATION OF PUBLIC SERVICE COMPANY OF COLORADO FOR APPROVAL OF THE POWER PURCHASE AGREEMENT FOR 118.8 MW OF NATURAL GAS GENERATION, EARLY RETIREMENT OF ARAPAHOE UNIT 4, AND A GAS SALES AGREEMENT.

**DECISION GRANTING APPROVAL OF
THE ACQUISITION OF WIND RESOURCES**

Mailed Date: October 9, 2013
Adopted Date: October 8, 2013

I. BY THE COMMISSION

A. Statement

1. This matter comes before the Commission in consideration of the request of Public Service Company of Colorado (Public Service or the Company) for approval to acquire certain wind generation resources. Public Service supports this request with an analysis of wind

bids in its 2013 All Source Solicitation 120-Day Report (120-Day Report) filed on September 9, 2013, under paragraph 3613(d) of the Commission's Electric Resource Planning (ERP) Rules, 4 *Code of Colorado Regulations* 723-3-3600, *et seq.* The wind bids are premised on qualifying for the temporarily extended federal Production Tax Credits (PTC) that are projected to cause the wind energy to create savings for Public Service's customers over the term of associated contracts.

2. Now being duly advised in the matter, we approve Public Service's proposal to proceed with two Purchase Power Agreements (PPAs) for the acquisition of 450 MW of PTC Wind.

B. Background

3. The American Taxpayer Relief Act of 2012 was signed into law on January 2, 2013. The law extended the federal PTC for wind resources that begin construction before January 1, 2014.

4. Pursuant to the procedures established in Decision Nos. C13-0328, issued on March 15, 2013, and C13-0689, issued on June 7, 2013, Public Service solicited and evaluated bids in an expedited timeframe to enable prospective bidders to qualify for the federal PTC.

5. Public Service filed its initial PTC Wind Bid Evaluation Report on May 30, 2013, which provided a short list of PTC Wind bids. At that time, the Company requested Commission approval to commence contract negotiations with three PTC wind bids totaling approximately 550 MW, subject to final Commission approval after the Company evaluated these wind resources with other generation proposals as part of Phase II of this ongoing ERP proceeding.

6. By Decision No. C13-0759, issued June 21, 2013, the Commission directed Public Service to commence contract negotiations with the most cost-effective PTC wind bid for

199 MW. The Commission also allowed Public Service to move forward with developer(s) of appropriate back-up bid(s). It also indicated that any other PTC wind bids Public Service chose to pursue would be evaluated in accordance with the Phase I Decision and as presented in the 120-Day Report in Phase II.

C. Final PTC Wind Proposal

7. In its 120-Day Report, Public Service proposes to enter into a PPA with the most cost-effective bid as initially approved in Decision No. C13-0759 (Bid W013), and also with the second most cost-effective bid (Bid W023).

8. According to the 120-Day Report, Bid W013 is the lowest cost bid for PTC wind resources. Bid W013 is projected to cause \$130 million of savings to customers in terms of the Company's total Present Value Revenue Requirements (PVRRs) under the base forecast of future natural gas prices as approved by the Commission in Phase I, Decision No. C13-0094 issued January 24, 2013. W023 is the second lowest cost bid, with a projected \$100 million of PVRR savings under the base gas forecast.

9. Because both PTC wind bids are projected to bring substantial cost savings with no negative impact to the Company's Renewable Energy Standard Adjustment deferred balance, Public Service requests a Commission decision that approves the acquisition of the 450 MW of PTC wind resources included in the Company's Preferred Portfolio, as described in the 120-Day Report.

10. Comments regarding the Company's proposal to acquire PTC wind resources were timely filed on September 23, 2013 by: Western Resource Advocates (WRA); the Colorado Office of Consumer Counsel (OCC); Encana Oil & Gas (USA) Inc. and Noble Energy, Inc.

(collectively, the Gas Producers); and Interwest Energy Alliance (Interwest). In addition, the Independent Evaluator (IE) for this ERP proceeding filed comments.

11. Interwest, WRA, and OCC recommend that the Commission approve both of the PTC wind bids proposed to be acquired by Public Service, asserting that the Company adequately answered the Commission's questions in Decision No. C13-0759 and highlighting the benefits of the two bids, including cost savings, decreased CO₂ emissions, and other attributes.

12. The Gas Producers oppose Public Service's proposal to acquire Bid W023 and recommend that the Commission approve only Bid W013. The Gas Producers argue that Bid W023 suffers from land use permitting challenges and that future gas prices will be both lower and more stable for the foreseeable future. Gas Producers also argue that, if the Commission approves Public Service's proposal for the second PTC wind bid, the Commission should ensure that the resulting PPA includes no recourse for the developer to seek a change in price should its attempt to claim the PTC fail.

13. The IE takes a neutral position with respect to the proposed acquisition of PTC wind resources, providing an analysis of Public Service's proposal and the Company's answers to Commission questions in Decision No. C13-0759.

D. Conclusions and Findings

14. Applying the assumed Effective Load Carrying Capability (ELCC) of 12.5 percent for wind resources as approved in by Decision No C13-0094, Bids W013 and W023 will provide approximately 56 MW of capacity to Public Service's system. In combination with the other utility resources Public Service proposes to acquire pursuant to its Preferred Portfolio as set forth in the 120-Day Report, the Company will have excess capacity of approximately 92 MW during the Resource Acquisition Period ending October 31, 2018. These values indicate

that capacity provided by the proposed 450 MW of PTC wind resources is not essential. However, the wind resources will reduce the Company's future capacity needs throughout the PPA terms, assuming a similar 12.5 percent ELCC factor is applied.

15. Public Service also projects that the Company does not require any additional wind energy to meet the Renewable Energy Standard.

16. Therefore, our evaluation of Public Service's request is primarily based on the projected net economic benefits of acquiring the PTC wind resources. Specifically, the proposed wind bids are expected to result in \$231 million of cost savings from the displacement of fuel and variable operating costs of other generation on Public Service's system under the base bid evaluation assumptions we approved in Phase I of this ERP proceeding.

17. The acquisition of Bid W013 is not contested, and this PTC wind project clearly provides economic benefits to consumers under a range of assumptions consistent with our Phase I Decision. Therefore we find the price of Bid W013 to be reasonable and approve the acquisition of this resource as part of the Company's cost-effective resource plan.

18. The price of Bid W023 is also reasonable based upon the analysis presented in the Company's 120-Day Report. We find that Bid W023 will likely provide economic benefits to consumers under the base assumptions we approved in Phase I and that the acquisition of this PTC wind resource will serve as a reasonable form of protection against higher-than-forecast fuel prices in the future.

19. Public Service's request for approval to acquire 450 MW of new wind generation resources as identified in its Preferred Portfolio is therefore granted. Bids W013 and W023 are included in Public Service's final cost-effective resource plan.

20. To maintain the presumption of prudence pursuant to paragraph 3617(d) of the Commission's ERP Rules, any executed contracts for Bids W013 and W023 must be consistent with the prices considered in the Company's 120-Day Report, which are contingent on the projects qualifying for the PTC. If a project does not qualify for the PTC or if the price otherwise varies from representations made in the 120-Day Report, the resulting price revisions are not approved by this Decision.

II. ORDER

A. The Commission Orders That:

1. The request of Public Service Company of Colorado (Public Service or Company) for approval to acquire 450 MW of new wind generation resources in its Preferred Portfolio as set forth in its 2013 All Source Solicitation 120-Day Report (120-Day Report), filed on September 9, 2013, is granted, consistent with the discussion above.

2. Bids W013 and W023 are included in Public Service's final cost-effective resource plan approved under paragraph 3613(h) of the Commission's Electric Resource Planning (ERP) Rules, 4 *Code of Colorado Regulations* 723-3-3600, *et seq.* The Commission shall address all other resources to be included in Public Service's final cost-effective resource plan by a separate Decision pursuant to the procedures established in previous decisions issued in this Proceeding.

3. Because Public Service has not filed for approval the final contracts with Bids W013 and W023, the Company shall be afforded the presumption of prudence pursuant to paragraph 3617(d) of the Commission's ERP Rules. To maintain this presumption of prudence, any executed contracts for Bids W013 and W023 must be consistent with the prices considered in the 120-Day Report, which are contingent on the projects qualifying for the federal Production

Tax Credit (PTC), consistent with the discussion above. If a project associated with Bids W013 and W023 does not qualify for the PTC or if the price otherwise varies from representations made in the 120-Day Report, the resulting price revisions are not approved by this Decision.

4. The 20-day period provided for in § 40-6-114, C.R.S., within which to file applications for rehearing, reargument, or reconsideration, begins on the first day following the effective date of this Decision.

5. This Decision is effective upon its Mailed Date.

**B. ADOPTED IN COMMISSIONERS' DELIBERATIONS MEETING
October 8, 2013.**

(S E A L)



ATTEST: A TRUE COPY

Doug Dean,
Director

THE PUBLIC UTILITIES COMMISSION
OF THE STATE OF COLORADO

JOSHUA B. EPEL

JAMES K. TARPEY

PAMELA J. PATTON

Commissioners