BLACK HILLS POWER, INC.
d/b/a BLACK HILLS ENERGY
SD PUC DOCKET: EL16-042

REQUEST DATE : 03/06/17

RESPONSE DATE : 03/20/17

REQUESTING PARTY: Staff

SDPUC Request No. 4-6:

Explain the vetting process BHE employs before using avoided cost modeling software. Has the ABB model been vetted externally through its use in other avoided cost dockets?

Response to SDPUC Request No. 4-6:

Black Hills discussed with ABB the use of Planning and Risk (PaR) for modeling avoided costs prior to using the model to calculate avoided costs. ABB indicated that other companies have used the PaR model to calculate avoided costs.

Black Hills used PaR to model and calculate avoided costs for a 20 MW solar QF PPA located in the Black Hills - South Dakota service territory. During contract negotiations, the developer hired a consultant to review the avoided cost calculation completed by Black Hills. The PaR model was also used to calculate avoided costs of eligible energy resources in Colorado PUC Proceeding 16A-0436E (Black Hills Colorado Electric 2018-2021 RES Compliance Plan).

Black Hills also used PaR in 2013 to calculate avoided cost rates for Black Hills Colorado Electric's Rate Code CO700 (Proceeding no 13AL-1251E). The Company used a different methodology to calculate the avoided cost rate in the Black Hills Colorado Electric's Rate Code CO700 proceeding than was used to calculate the avoided costs for this docket (EL16-042). Rather than comparing two models - one that includes the QF and one that excludes the QF - Black Hills Colorado Electric used the PaR model to determine the marginal cost of the next MW needed to serve load from Black Hills Colorado Electric's model that did not include a QF.

Black Hills Colorado Electric no longer uses the marginal cost value as its avoided cost rate in Rate Code CO700. FERC requires that host utilities must purchase energy from a QF at rates equal to the host utility's full avoided cost "*the incremental cost to the electric utility of electric energy or capacity or both which, but for the purchase from the QF or QFs, such utility would generate itself or purchase from another source*" (18 CFR sec. 292.101(b)(6)). Therefore, Black Hills believes that the method used to determine the avoided cost - calculating the cost a utility would have incurred had it supplied the power itself or obtained the power from another source rather than the cost of producing one additional unit of energy is appropriate.

Attachments:

None.

Responder:

Lisa Seaman