

## DECISION MEMORANDUM

**TO:** COMMISSIONER KJELLANDER  
COMMISSIONER RAPER  
COMMISSION SECRETARY  
COMMISSION STAFF

**FROM:** DAPHNE HUANG  
DEPUTY ATTORNEY GENERAL

**DATE:** JULY 17, 2015

**SUBJECT:** IDAHO POWER'S APPLICATION TO APPROVE CAPACITY DEFICIENCY FOR AVOIDED COST CALCULATIONS, CASE NO. IPC-E-15-20

On July 2, 2015, Idaho Power Company filed an Application with the Commission for an Order approving the capacity deficiency period to be used for the Company's avoided cost calculations under the Public Utility Regulatory Policies Act (PURPA). The Company asked that the Application be processed under Modified Procedure.

### BACKGROUND

Under PURPA, electric utilities must purchase electric energy from qualifying facilities (QFs) at rates approved by the applicable state regulatory agency – in Idaho, this Commission. 16 U.S.C. § 824a-3; *Idaho Power Co. v. Idaho PUC*, 155 Idaho 780, 789, 316 P.3d 1278, 1287 (2013). The purchase or “avoided cost” rate shall not exceed the “‘incremental cost’ to the purchasing utility of power which, but for the purchase of power from the QF, such utility would either generate itself or purchase from another source.” Order No. 32697 at 7, *citing Rosebud Enterprises v. Idaho PUC*, 128 Idaho 624, 917 P.2d 781 (1996); 18 C.F.R. § 292.101(b)(6) (defining “avoided cost”).

The Commission has established two methods of calculating avoided cost, depending on the size of the QF project: (1) the surrogate avoided resource (SAR) methodology, and (2) the integrated resource plan (IRP) methodology. *See* Order No. 32697 at 7-8. The Commission uses the SAR methodology to establish what is commonly referred to as “published” avoided cost rates. *Id.* Published rates are available for wind and solar QFs with a design capacity of up to 100 kilowatts (kW), and for QFs of all other resource types with a design capacity of up to 10 average megawatts (aMW). *Id.* For QFs with design capacity above the published rate

eligibility caps, avoided cost rates are “individually negotiated by the QF and the utility using the [IRP methodology].” Order Nos. 32697 at 2; 32176. In 2012, the Commission authorized the use of revisions to the IRP methodology which “focus on identifying the incremental costs that [Idaho Power’s] system would incur.” Order No. 32697 at 21.

In calculating avoided cost, the Commission found it “reasonable, appropriate and in the public interest to compensate QFs separately based on a calculation of not only the energy they produce, but the capacity that they can provide to the purchasing utility.” *Id.* at 16. As to the capacity calculation, the Commission found it appropriate “to identify each utility’s capacity deficiency based on load and resource balances found in each utility’s IRP.” *Id.* The Commission elaborated:

In calculating a QF’s ability to contribute to a utility’s need for capacity, we find it reasonable for the utilities to only begin payments for capacity at such time that the utility becomes capacity deficient. If a utility is capacity surplus, then capacity is not being avoided by the purchase of QF power. By including a capacity payment only when the utility becomes capacity deficient, the utilities are paying rates that are a more accurate reflection of a true avoided cost for the QF power.

*Id.* at 21.

The Commission directed that “when a utility submits its [IRP] to the Commission, a case shall be initiated to determine the capacity deficiency to be utilized in the SAR Methodology.” *Id.* at 23. The Commission also stated “utilities must update fuel price forecasts and load forecasts annually – between IRP filings. . . . We find it reasonable that all other variables and assumptions utilized within the IRP Methodology remain fixed between IRP filings (every two years).” *Id.* at 22.

In 2014, the Commission confirmed July 2021 as Idaho Power’s capacity deficiency period for use in the incremental cost IRP methodology. Order No. 33159 at 9.

### **THE APPLICATION**

In its Application, Idaho Power states it “currently utilizes a first capacity deficit of July 2021.” Application at 2. Also, the Company notes that it filed its 2015 IRP (Case No. IPC-E-15-19) with the Commission on June 30, 2015. According to Idaho Power, its 2015 IRP “identifies the first capacity deficit occurring in July 2025.” *Id.*

Idaho Power’s Application includes Table 1, which “shows a first capacity deficiency of 14 [MW] occurring in July 2025.” *Id.* at 3. According to the Company, this “includes 461

MW of PURPA solar that was under contract when the analysis of Table 1 was completed for the 2015 IRP.” *Id.* However, after Table 1 was developed in the 2015 IRP, “four PURPA Energy Sales Agreements (“ESAs”) were terminated due to failure of the projects to perform” per their terms and provisions. *Id.*, *citing* Case Nos. IPC-E-14-28, IPC-E-14-29, IPC-E-14-30, and IPC-E-14-31. Idaho Power provides that the “total amount of capacity for these four terminated ESAs was 141 MW.” *Id.* at 3-4.

Idaho Power’s Application also includes Table 2, which shows an “updated peak-hour surplus/deficit chart,” reflecting removal of the 141 MW of PURPA. *Id.* at 4. Idaho Power states, “Removal of the 141 MW of terminated PURPA solar projects results in a first capacity deficit of 47 MW in July 2024, one year earlier than that shown in Table 1 and the 2015 IRP.” *Id.* Consequently, the Company asks that “a first capacity deficit of July 2024 be utilized for avoided cost calculations for both the SAR and IRP methodologies.” *Id.*

#### **STAFF RECOMMENDATION**

Staff recommends that this matter be processed under Modified Procedure with a 28-day comment period.

#### **COMMISSION DECISION**

Does the Commission wish to issue a Notice of Petition and Notice of Modified Procedure with a 28-day comment period?

*Daphne Huang*  
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Deputy Attorney General

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