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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF A REVIEW OF THE SURROGATE AVOIDABLE RESOURCE (SAR) METHODOLOGY FOR CALUCULATING PUBLISHED AVOIDED COST RATES	))))))	CASE NO. GNR-E-09-03

COMMENTS ON THE STAFF'S STRAWMAN PROPOSAL

COMES NOW Idaho Conservation League ("ICL") with the following comments on the Staff's Strawman Proposal issued May 27, 2010. While ICL has not previously engaged on this issue, we hope the Commission and other parties will consider these comments and including ICL in any future workshops. As an organization, ICL's interest is in representing the residential customer class specifically as well as promoting all forms of clean, efficient energy resources. ICL has a unique perspective in this issue because, unlike the utilities or the developers, we are indifferent to who builds renewable resources. Our interest is in ensuring customers pay a fair rate and renewable projects can take advantage of the entire suite of incentives available in the form of tax credits, Renewable Energy Certificates, and PURPA rates.

I. ICL SUPPORTS THE CONCEPT OF A REVISED SAR THAT ALIGNS WITH THE CHARACTERISTICS OF THE AVOIDED RESOURCE.

ICL generally supports the concept of a SAR methodology that explicitly accounts for differences in resource characteristics. In the clean energy world, wind and geothermal currently offer similar costs that are competitive with gas fired generation. However, no one can deny that wind and geothermal have different fundamental characteristics specifically in terms of variability and dispatchability. Moreover, wind and geothermal are different from each other as well as different from a gas fired CCCT. While ICL acknowledges the current geothermal power purchase agreements do not include dispatchability provisions, this is a function of contracting rather than physics. Likewise, while integrated energy storage technology could bring a level of predictability and dispatchability to wind power, this appears to be more an engineering issue than a contracting issue.

Despite this potential, the fact remains that the current range of resources available either as qualifying facilities or utility built options present a diverse range of characteristics. ICL agrees with the fundamental premise of the staff's strawman proposal that either the current SAR method needs to incorporate these characteristics, or separate SAR methodologies are needed to compare different resources. ICL is concerned that variability, dispatchability, tax credits, transmission, and integration costs are not limited to wind generation alone. For example, while geothermal or small hydro resources are more similar to a CCCT plant in terms of capacity value, they are dissimilar by having no fuel price or emissions risks. Driven by this concern, ICL believes any change to the SAR methodology should not be limited to wind alone; rather should accomplish the goal stated by the Staff:

> For an SAR method to be effectively employed, the SAR must share some of the same generation characteristics as the QF resources whose output is being purchased by the utility.

Staff Comments at 4, (September 18, 2009).

II. BECAUSE CAPITAL COSTS FOR RENEWABLES ARE FALLING RAPIDLY, ANY REVISED SAR SHOULD INCLUDE AN ADJUSTMENT MECHANISM FOR THESE COSTS.

The strawman explains, the "SAR assumptions primarily determine the capital costs component of avoided cost rates." *Proposal,* at 4. In nonfuel driven generation – be it geothermal, solar, small hydro or wind - capital costs are the primary component of the entire project. However, these capital costs continue to fall for some of technologies. CCCTs by contrast have stable capital costs and variable fuel costs. The current SAR methodology accounts for this by incorporating periodic fuel cost adjustments. Likewise, any revised SAR that attempts to model nonfueled resources should include a method to adjust capital costs. ICL submits this could be accomplished by looking to an annual survey of capital costs incurred for various projects conducted by market research or project development firms. To correct for assumptions and possible errors, the Commission could look to several surveys and calculate a median value.

III. ANY REVISED SAR MUST ACCOUNT FOR TRANSMISSION COSTS.

ICL believes that transmission costs should play some role in the SAR methodology because the ability and cost of connecting energy to load is fundamental to any resource selection process. The problem is that if the utility avoids a self-built resource by purchasing energy from a PURPA project, the utility may not be avoiding any transmission costs.

The strawman proposes using the three investor owned utility's embedded costs or possibly their OATT transmission rates. *Proposal,* at 4-5. Because these values reflect existing rather than new transmission costs, ICL believes both methods will underestimate the potential costs and inadequately signal the need for new transmission infrastructure. Avista, Idaho Power, and Pacific Corp, along with most other utilities, are all currently planning to build new transmission infrastructure. This planning should enable these utilities to provide the Commission with more accurate estimates of the cost of new transmission. These costs should account for both the location of the resource relative to load centers and how individual resources cumulatively trigger the need for new transmission lines.

The utilities planning for new lines also informs this SAR methodology review process in that it signals the current infrastructure is inadequate to meet predicted demands. ICL is concerned that if the SAR methodology does not accurately capture the costs for increased transmission capacity caused by PURPA projects and utility built resources certain generation projects could avoid paying their share of these new costs. Each new resource, no matter who constructs it, potentially drives the need for increased transmission infrastructure.

IV. TREATMENT OF TAX CREDITS DEPENDS UPON HOW UTILITIES TREAT THEM FOR SELF-BUILT RESOURCES.

How to account for tax credits is a contentious issue in this matter. ICL believes current tax policy is designed to provide an incentive for renewable energy development in addition to whatever incentive PURPA may provide. For this tax incentive to work, the benefit should go to whoever develops the project. As ICL currently understands the issue, the utilities believe the SAR method should account for tax credit benefits to qualifying facilities by reducing the avoided costs rate. *Utilities Joint Sur-Reply,* at 4-5. The developers believe that, by offsetting

the avoided costs rate by the amount of the tax credit, the SAR would effectively deprive qualifying facilities of the benefit of the credit. *See Exergy's Reply Comments,* at 6-7. The strawman invites arguments for the inclusion or exclusion of these credits. *Proposal,* at 6.

ICL believes the answer to this conflict lies in how a utility accounts for tax credits when placing self-built resources into their rate base. If a utility builds a resource and offsets the cost by the value of the tax credits when placing that resource into their rate base, then the SAR methodology should also reduce the cost of the avoided resource by the value of the tax credit. If instead, the utility does not use the tax credits to reduce the cost to ratepayers for self-built resources, then the SAR should not allow them to do so for PURPA projects. The same formulation holds true for qualifying facilities larger than 10aMW. If the utility does not reduce the rates paid to these large facilities by the value of the tax credits, then they should not be allowed to do so for small qualifying facilities.

VI. RECS MUST HAVE SOME VALUE OTHER THAN ZERO.

Like tax credits, the treatment of Renewable Energy Certificates remains contentious. RECs are similar to tax credits in that they provide an incentive to promote renewable energy in addition to whatever incentives PRUPA might provide. However, RECs are distinct in that they have two independent values, one as a marketable quantity, and another as a means to comply with regulatory requirements. One problem in Idaho is that these values are different for every party. Because Idaho Power is a net seller of RECs, to them they have only a market value. By contrast, Avista and Rocky Mountain can either sell RECs or use them to meet regulatory obligations. Meanwhile, in the hands of developers, RECs are a valuable commodity that can provide a secondary stream of income beyond rates. What is clear from all of this is that, as

stated by the Staff "In any case, RECs have value, whether to meet state or federal requirements, or as a marketable commodity." *Staff Comments,* at 6.

Because RECs have some value, any revised SAR methodology must incorporate some amount other than zero. The strawman explains "if the entire cost and value of RECs is assumed to be captured by the utility simply through the purchase of power from the QF, then the proper REC cost value to be entered in the model is zero." *Proposal,* at 6. This is an invalid assumption. The entire premise of the REC system is that they represent some additional value beyond the power associated with them -- the environmental attributes of the generation source. Either selling the REC as a commodity, or retiring them to satisfy a regulatory obligation monetizes this value. Regulatory obligations always have some cost greater than zero and under the REC system, this cost is paid by acquiring and then retiring a REC, either to comply with a state portfolio standard or to comply with truth in advertising laws. REC's are currently traded as a commodity, which can provide an approximate value for satisfying the regulatory costs.

CONCLUSION

ICL appreciates the opportunity to offer its comments on this matter. We believe PURPA and the SAR methodology are an important mechanism to transition to a modern energy resource mix. As the number of PURPA projects continues to rise and the utilities embark on the substantial capital projects indentified in their Integrated Resource Plans it is critical the SAR methodology reflects current costs and values. ICL looks forward to continuing to work with all parties on this issue.

Respectfully submitted this 18th day of June, 2010

Benjamin J. Otto
Idaho Conservation League

CERTIFICATE OF SERVICE

I hereby certify that on this 18th day of June 2010, true and correct copies of the foregoing COMMENTS ON THE STAFF'S STRAWMAN PROPOSAL were delivered to the following persons via the method of service noted:

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