

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

<b>IN THE MATTER OF A REVIEW OF THE</b>	)	
<b>SURROGATE AVOIDABLE RESOURCE</b>	)	<b>CASE NO. GNR-E-09-03</b>
<b>(SAR) METHODOLOGY FOR</b>	)	
<b>CALCULATING PUBLISHED AVOIDED</b>	)	<b>NOTICE OF REVIEW OF</b>
<b>COST RATES</b>	)	<b>AVOIDED COST METHODOLOGY</b>
	)	
	)	<b>NOTICE OF</b>
	)	<b>COMMENT DEADLINE</b>
	)	
	)	<b>ORDER NO. 30873</b>

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YOU ARE HEREBY NOTIFIED that the Idaho Public Utilities Commission (Commission) is initiating a generic electric case to assess the continued viability of the Commission's existing proxy unit or surrogate avoidable resource (SAR) methodology for calculating published avoided cost rates. Specifically, the Commission intends to explore the continued reasonableness of using published avoided cost rates as presently calculated for all QF resource types.

**BACKGROUND**

Out of the nationwide energy crisis of the late 1970s, Congress enacted the Public Utility Regulatory Policies Act of 1978 (PURPA). Sections 201 and 210 of PURPA require electric utilities to purchase power produced by co-generators or small power producers that obtain qualifying facility (QF) status. Under PURPA Section 210(b) the rate to be paid for such power is not to exceed "the incremental cost to the utility of alternative electric energy."

Pursuant to Congressional directive, the Federal Energy Regulatory Commission (FERC) promulgated rules implementing Sections 201 and 210 of PURPA. Under FERC rules, the utility requirement to purchase from QFs is set out in 18 C.F.R. § 292.303(a). The rate a qualifying facility is to receive for the sale of its power is generally referred to as the "avoided cost" rate – the incremental cost to an electric utility of electric energy or capacity or both which, but for the purchase from the qualifying facility, such utility would generate itself or purchase from another source. 18 C.F.R. § 292.101(b)(6). PURPA Section 210(b) and related FERC regulations provide that the rates for QF purchases shall: (1) be just and reasonable to the

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electric consumers of the electric utility and in the public interest; and (2) not discriminate against qualifying co-generators or small power producers. 18 C.F.R. § 292.304(a)(1)(i), (ii).

There are two general caveats under PURPA: (1) electric utilities are not required to pay more than the utility's avoided costs for purchases of QF capacity and energy (PURPA Section 210(b); 18 C.F.R. § 292.304(a)(2)); and (2) co-generators and small power producers in their sales to utilities are not to be subjected to pervasive utility type regulations, i.e., regulation respecting (i) the rates of electric utilities; and (ii) the financial and organizational regulation of electric utilities. PURPA Section 210(e); 18 C.F.R. § 292.602(c)(1)(i)(ii).

In implementing PURPA, the Idaho Commission has developed a body of regulatory decisions in generic ratesetting and complaint actions since 1980 that set out the general principles and framework under which Idaho electric utilities are to purchase power from qualifying facilities.

#### ***Avoided Cost Methodology for QFs Larger than 10 MW***

PURPA requires only that the Commission establish and make available published rates for projects 100 kW (i.e., one-tenth of 1 MW) and smaller. 18 C.F.R. § 292.304(c). The current threshold established by this Commission for published rate eligibility is 10 MW. The Commission-approved methodology for establishing rates for QFs larger than 10 MW (QFs not eligible for published rates) is based on a utility's Integrated Resource Plan (IRP), using a least cost planning based methodology. As provided in Commission Order No. 25884, pages 4-5, this methodology operates as follows: First, the utility determines through its least cost plan model the cost of meeting load over the next 20 years. Whenever a proposed QF project is offered to the utility, the utility inserts the generation and capacity of the project into the model and determines what cost would be avoided over the 20-year period. That avoided cost is the rate available to the developer. Requiring developers of such projects to prove their viability by market standards ensures that utilities will not be required to acquire resources priced higher than would result from a least-cost planning process. Ratepayers will not be disadvantaged and QFs will be treated fairly and consistently with the requirements and goals of PURPA.

The Commission is satisfied that avoided costs for QFs larger than 10 MW under current methodology are calculated correctly. Accordingly, the avoided cost methodology for large QFs is not being reviewed in this case docket.

***Published Avoided Cost Rates (for QFs Smaller than 10 MW)***

The current administrative SAR methodology for calculation of published avoided cost rates for QFs smaller than 10 MW is based on the estimated costs that a utility would incur in constructing a natural gas-fired combine cycle combustion turbine (CCCT). Prior to that, the surrogate was a hypothetical base load coal-fired generation plant. In selecting a gas-fired CCCT to replace the coal SAR, the Commission in Case No. IPC-E-93-28 noted that the Northwest Power Planning Council (Council) had adopted a gas-fired CCCT as the regional resource of choice. Order No. 25884, p. 3. We then stated that if, in the future, a gas CCCT proves not to be a viable, cost-effective resource, then we are free to again alter our choice of the surrogate. *Id.* Based on recent filings at the Commission by Idaho's electric utilities, we are concerned that a disparity exists between Idaho's published avoided cost rate established using a natural gas-fired surrogate resource and the cost to a utility of developing and operating its own wind generation project.

YOU ARE HEREBY NOTIFIED that the appropriateness of a single avoided cost SAR methodology for published rates is being re-examined in the context of PURPA and FERC requirements and the comparative and different generation and operation capabilities of resources being offered to Idaho utilities, e.g., capacity factor, dispatchability, intermittency.

To establish a basis for discussion and analysis and to determine the nature and scope of further procedure, we seek answers to the following questions. We require answers from all three electric utilities, Avista, Idaho Power and PacifiCorp. We also solicit answers from other interested parties. As always, the published rates remain presumptively reasonable and available to eligible QFs until changed.

1. Does the present SAR methodology for published avoided cost rates need to be modified or augmented? Yes or No.
2. If answer to Question 1 is no, please provide the basis for your answer.
3. If answer to Question 1 is yes,
  - a. Please provide the basis for your answer.
  - b. In broad and general terms, how should the methodology be modified or augmented?

**The deadline for filing written comments is September 18, 2009.**

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## CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over Idaho Power Company, Avista Corporation dba Avista Utilities and PacifiCorp dba Rocky Mountain Power, electric utilities, pursuant to the authority and power granted it under Title 61 of the Idaho Code and the Public Utility Regulatory Policies Act of 1978 (PURPA).

The Commission has the authority under PURPA and the implementing regulations of the Federal Energy Regulatory Commission (FERC) to set avoided costs, to order electric utilities to enter into fixed-term obligations for the purchase of energy from qualified facilities, and to implement FERC rules.

## ORDER

In consideration of the foregoing and as more particularly described above, IT IS HEREBY ORDERED and the Commission does hereby initiate generic electric docket No. GNR-E-09-03 and adopts the foregoing schedule for comments.

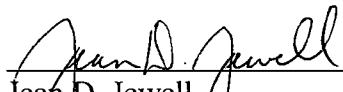
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 5<sup>th</sup> day of August 2009.

  
JIM D. KEMPTON, PRESIDENT

  
MARSHA H. SMITH, COMMISSIONER

  
MACK A. REDFORD, COMMISSIONER

ATTEST:

  
Jean D. Jewell  
Commission Secretary

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