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April 8, 2013

Ms. Jean Jewell
Commission Secretary
Idaho Public Utilities Commission
472 W. Washington
Boise, ID 83702

VIA HAND DELIVERY

Re: GNR-E-11-03 – Filing of Confidential Information Pursuant to Rule 67

Dear Ms. Jewell:

Accompanying this letter please find enclosed an original and seven copies of our *Reply Comments* in the above matter containing confidential information pursuant to the Protective Agreement between Avista Corporation, Idaho Power Company, Pacific Corp, Idaho Public Utilities Commission staff, and Intervenors to be filed pursuant to Rule 67 of the IPUC Rules of Procedure. Such information is labeled "Confidential" because the same was provided to us in discovery under that label, pursuant to the Agreement.

Sincerely,

ARKOOSH LAW OFFICES

Erin Cecil
Legal Assistant

/emc
Enclosures
Cc: Client

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Attorneys for Twin Falls Canal Company, North Side Canal Company, Big Wood Canal Company and American Falls Reservoir District No. 2

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE COMMISSION'S REVIEW OF PURPA QF CONTRACT PROVISION INCLUDING THE SUBROGATE AVOIDED RESOURCE (SAR) AND INTEGRATED RESOURCE PLANNING (IRP) METHODOLOGIES FOR CALCULATING PUBLISHED AVOIDED COST RATES.	Case No. GNR-E-11-03 **REPLY COMMENTS OF NORTH SIDE CANAL COMPANY, TWIN FALLS CANAL COMPANY, BIG WOOD CANAL COMPANY, AND AMERICAN FALLS RESERVOIR DISTRICT NO. 2**

COME NOW Twin Falls Canal Company, North Side Canal Company, Big Wood Canal Company, and American Falls Reservoir District #2 (collectively, "Canal Companies"), by and through their counsel of record, C. Tom Arkoosh of Arkoosh Law Offices, and hereby submit these *Reply Comments*.

These *Reply Comments* are submitted on behalf of the Canal Companies pursuant to Order No. 32737, which provides parties the opportunity to address the comments of other parties filed on March 25, 2013. Having reviewed Idaho Power Company's Comments on Reconsideration ("IPC Comments") and the Comments of the Commission Staff ("Staff

Comments"), the Canal Companies take exception with two somewhat related but distinct issues raised by these parties: 1) the delivery standard that a canal drop project—or any project--must achieve in order to obtain the full avoided cost resource capacity value, and 2) the on-peak capacity factors being advocated for canal drop or seasonal hydro projects[1] by these entities. As expressed in our March 25, 2013 comments, we continue to urge the Commission adopt an on-peak or seasonal capacity factor for canal drop projects of 100% in order to reflect the full avoided capacity cost for superior performing canal drop or seasonal hydro projects.

The on-peak capacity factor is a very critical input to the avoided cost spreadsheet model used to determine standard avoided cost prices. It directly impacts the amount of avoided capacity cost that is reflected in the resulting standard avoided cost prices. For example, an on-peak capacity factor value of 80% will result in only 80% of the avoided capacity cost (the capital cost and the fixed operation and maintenance cost of the avoided resource) being included in the avoided cost price. Similarly, on-peak capacity factors of 60% and 95% will result in the avoided cost prices reflecting only 60% and 95% of the avoided capacity costs, respectively. The IPC Comments argue that no resource is capable of delivering capacity during 100 percent of the on-peak hours over a 20 year period and, consequently, no resource should be paid 100% of the avoided cost of capacity:

> However, it is not reasonable to assume that a project will achieve a perfect 100 percent capacity factor and will never have any outages during Idaho Power's peak energy need period during the 20-year contract term as is implied by the suggested use of a 100 percent capacity factor. Even a well operated and maintained facility is likely to have unexpected mechanical and forced outages occur over the typical contractual term, and it is not reasonable to pay a 20-year price based upon the assumption that a project has a perfect 100 percent capacity factor. (IPC Comments at page 10)

[1] The Staff Comments propose the use of the term "seasonal hydro" instead of "canal drop hydro" to refer to any hydro project that provides capacity when it is most needed by the utility. For these comments, the Canal Companies consider these two terms as having the same meaning.

The Canal Companies agree with IPC that no resource can be expected to provide 100% on-peak deliveries 100% of the time. This is precisely why utilities recognize or take into account forced outage rates for various resources and have planning reserve margins to account for expected outages and a host of other circumstances. However, this does not mean that a QF resource should not be able to receive 100% of the avoided capacity costs. As a case in point, IPC Exhibit No. 3, page 18, has a "base load" 90% exceedance capacity factor of 92%[2]. In actuality, this is an "expected" or "50%" value as it is based on an *expected* forced outage rate of 8%. This is a typical value for base load resources. As such, any QF resource that can provide on-peak deliveries comparable to or exceeding the expected on-peak deliveries of the avoided resource should receive 100% of the avoided capacity cost.

As previously explained by illustrative examples, the current calculus in the avoided cost pricing model assigns capacity-related costs based on the assumption that the avoided resource can and does provide on-peak capacity 100% of the time. Thus, even an avoided cost base load resource that provides 92% on-peak deliveries all the time will only be paid 92% of the avoided capacity resource value. This is simply wrong. By analogy, the pricing model would only "pay" IPC 92% of the capital and fixed operation and maintenance costs of Langley Gulch since this resource cannot provide—and is not expected to provide--100% on-peak deliveries over its entire economic life. This Commission and the avoided cost pricing model must recognize that the avoided resource cannot provide 100% on-peak deliveries 100% of the time. As long as the QF project can match or exceed the on-peak deliverability of the avoided resource, it should receive 100% of the avoided resource capacity value. Either the logic in the avoided cost

[2] In the Staff Comments, using similar reasoning to IPC, staff advocates an on-peak capacity factor of 93% instead of IPC's 92% for base load resources. Either value is acceptable to the Canal Companies as the on-peak benchmark with which to pay 100% of the avoided capacity cost.

pricing model should be changed or the input values—the resource specific on-peak capacity factors—should be adjusted to account for the pricing model calculus such that an on-peak capacity factor of 92% equates to receiving 100% of the avoided capacity costs.

In addressing the appropriate on-peak capacity value to use in establishing standard rates for canal drop projects, the IPC Comments simply re-iterate the proposed 67.1% on-peak capacity factor contained in the direct testimony of Mr. Stokes (Exhibit No. 3, page18). In our March 25, 2013 comments, the Canal Companies showed that this value is simply not credible and should not be used to derive avoided cost prices for canal drop projects. Indeed, the independent analysis performed by staff did not rely on *any* of the data employed by IPC to calculate this value. Consequently, for this issue, the focus of these comments will be on staff's recommended on-peak capacity factor for "seasonal" hydro projects of 79%.

As noted in the Staff Comments, staff's analytical approach differed from IPC's in the specific projects used in the sample (seven projects with MV90 metering versus IPC's four projects with PI metering), the definition of the on-peak summer period (staff included June 23 through June 30 in addition to the month of July used by IPC), staff applied a "correction factor" in order to have the sample be more reflective of the entire population of the identified seasonal projects and staff used hourly data from a longer period of time (2007 - 2012 as compare to 2008 – 2011). (See Staff Comments at page 4 and page 6). While the Canal Companies appreciate the sound analysis undertaken by staff, the Canal Companies disagree with the recommended 79% on-peak value since it will not result in superior canal drop or seasonal projects receiving the value of the capacity these projects are providing. To show why this is the case, the following table presents the specific capacity factor values for each of the seven projects used in staff's analysis for the peak hours of June 23 through July 31 based on the actual hourly on-peak

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exceedance value represents the *minimum* capacity value that is delivered during 90% of the time, in actuality, 90% of the time IPC could plan on capacity being greater than this value. Only 10% of the time would the actual deliveries be below the 90% exceedance value. Except for the poor performing Project B shown in Table 1, the difference between the 90% exceedance value and the expected value are very close. This is far from what is implied or could be interpreted from the Staff Comments.

The closeness in the 90% exceedance and expected values shown for the superior performing canal drop projects is also consistent with IPC's own hydro projects. The following table is a sampling of IPC hydro projects on-peak capacity factors derived from information contained in IPC's Integrated Resource Plan ("IRP") under the three different planning scenarios.

Table 2
Select IPC ROR Hydro Projects - On-Peak Capacity Factors[3]

Run of River Plants	50% Water -50% Load	70% Water -70% Load	90% Water -70% Load
Lower Malad	87%	87%	87%
Swan Falls	50%	49%	45%
Twin Falls	22%	22%	20%
Upper Salmon B	80%	78%	76%
Total:	46%	45%	43%

For IPC's owned hydro projects, the differences between the 50% (expected) water scenario and the 90% water exceedance value are comparable to the canal drop projects, as is also the wide range of capacity values between the various projects for a given scenario. More importantly, each of these projects is "paid" its full cost under cost-of-service regulation even though its

[3] The values in the table are derived from IPC's IRP. The nameplate ratings used in the calculations are from page 27 of the IRP dated November 2011 while the expected MWs under the three different scenarios are from the IRP technical appendix, pages 96, 106 and 116 dated June 2011.

capacity contribution is far from 100% during the peak period and far below the performance of superior canal drop projects. As QF resources are substitutes for company owned resources, equity requires that canal drop projects should be paid for the capacity they provide.

As the characteristic of the avoided resource is based on an expected on-peak delivery amount—capability less the expected forced outage rate—QF projects should be paid on this same expected delivery standard. As shown by the historical delivery values in Table 1, several of the sampled projects have delivered at an on-peak rate very close to the 92% on-peak level of the avoided resource. These projects should be paid essentially 100% of the avoided resource capacity value. If on the other hand, Staff believes the on-peak deliveries for canal drop projects should be based on a 90% exceedance value--since this is what is used for IPC hydro projects--then canal drop projects should be measured against the 90% on-peak deliverability of IPC's owned hydro projects and not the avoided resource. Based on the sampled data for the hourly projects, the QF canal drop projects provide comparable on-peak deliveries as compared to the IPC projects. Using this "hydro yardstick" confirms that the superior performing canal drop projects should receive 100% of the avoided capacity costs.

As noted in our March 25, 2013 comments, the Commission should approve the use of a 100% on-peak capacity factor for deriving standard avoided cost energy prices for canal drop or seasonal projects to ensure the superior performing projects are paid for the capacity they do in fact provide. In addition, the avoided cost pricing model should be modified or used in a manner so that avoided cost prices reflect 100% of the avoided resource cost for expected on-peak capacity deliveries at or above the avoided resource expected on-peak capacity factor.

Respectfully submitted,

DATED this 8th day of April, 2013.

ARKOOSH LAW OFFICES

C. Tom Arkoosh
Attorneys for Twin Falls Canal Company, North Side Canal Company, Big Wood Canal Company and American Falls Reservoir District No. 2

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 8th day of April, 2013, I served a true and correct copy of the foregoing upon each of the following individuals by causing the same to be delivered by the method and to the addresses indicated below:

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