

KRISTINE A. SASSER
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0357
BAR NO. 6618

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Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5918

Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)	
IDAHO POWER COMPANY FOR)	CASE NO. IPC-E-14-22
CONFIRMATION OF THE CAPACITY)	
DEFICIENCY PERIOD FOR INCREMENTAL)	COMMENTS OF THE
COST, INTEGRATED RESOURCE PLAN,)	COMMISSION STAFF
AVOIDED COST METHODOLOGY.)	
)	

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Kristine A. Sasser, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 33116 on September 5, 2014 and scheduling Order No. 33147 issued on September 30, 2014, in Case No. IPC-E-14-22, submits the following comments.

BACKGROUND

On December 18, 2012, the Commission issued Order No. 32697 authorizing the use of Idaho Power's incremental cost IRP methodology. Solar and wind QF projects that exceed 100 kilowatts (kW) and all other QF generation that exceeds 10 average megawatts (aMW) negotiate avoided cost rates based on the approved incremental cost IRP methodology. In its Order, the Commission stated "We further find it appropriate to identify each utility's capacity deficiency

based on load and resource balances found in each utility's IRP." Order No. 32697 at 16. With regard to the capacity deficiency, the Commission further stated the following:

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 discussed the use of inputs from the Company's integrated resource planning process in the calculation of avoided cost rates. The Commission directed that "when a utility submits its Integrated Resource Plan to the Commission, a case shall be initiated to determine the capacity deficiency to be utilized in the SAR [Surrogate Avoided Resource] Methodology." *Id.* at 23. With regard to the IRP methodology, the Commission stated that "utilities must update fuel price forecasts and load forecasts annually – between IRP filings. . . . all other variables and assumptions utilized within the IRP Methodology remain fixed between IRP filings (every two years)." *Id.* at 22.

For purposes of the SAR methodology, the Commission recently determined that Idaho Power experiences its first capacity deficiency in July 2021. Order No. 33084. Although the Company's 2013 integrated resource planning process showed a first deficit in July 2016, Idaho Power presented evidence that it had 400 MW of demand response program customers enrolled for the 2014 season. The addition of 400 MW of capacity pushed the Company's deficit out to July 2021.

Idaho Power states that both the SAR and the IRP methodologies start with a default capacity deficit which is the same as that established by the most recent integrated resource planning process. For the 2013 planning process, a first deficit was identified as 2016 in the Company's preferred resource portfolio. However, Idaho Power states that because of the suspension of the Company's demand response programs in 2013, the first deficit of 2016 legitimately did not consider the approximately 400 MW of demand response.

Because of the unique circumstances of demand response not being considered in the planning process and therefore also not being considered in the IRP methodology calculation of avoided cost rates, Idaho Power has entered into contracts that contain capacity payments for the

entire term of the 20-year agreements. Idaho Power believes the correct avoided cost pricing for all proposed PURPA projects should take into account the Commission's finding that Idaho Power experiences its first capacity deficit in July 2021. The Company maintains that the IRP methodology is meant to be a more flexible, negotiated process whereby a more accurate representation of avoided cost can be determined. Therefore, the IRP methodology should reflect the capacity deficiency that the Commission determined based on the consideration of an additional 400 MW of capacity – provided through the Company's demand response programs.

Idaho Power states that the Company has just over 529 MW of proposed new solar QF projects seeking pricing and contracts. The difference in price for all 529 MW of proposed solar when applying a capacity deficit of July 2021 (includes 400 MW of demand response) instead of July 2016 (Idaho Power's 2013 integrated resource planning process determination of capacity deficiency) is approximately \$170 million over the life of the projects.

Idaho Power states that because the IRP methodology is meant to be flexible and because the Company is obligated to ensure that avoided cost rates are an accurate reflection of the utility's avoided cost, the Commission should confirm use of a first capacity deficit of July 2021 for purposes of avoided cost prices determined through use of the IRP methodology.

STAFF ANALYSIS

Avoided cost rates applied to PURPA contracts consist of two primary components – an energy component and a capacity component. The energy component usually comprises the majority of the avoided cost rate, but the capacity component can comprise about 20 to 50 percent of the rate depending on the season of the year and the life stage of the contract. The significance of a utility's capacity deficiency period is that it determines whether the avoided cost rates contain a capacity component. Conceptually, in those years when a utility is surplus, i.e. when its supply exceeds its demand, the utility would not be paying for capacity it does not need. Although the capacity component of avoided cost rates is computed somewhat differently in the SAR methodology than in the IRP methodology, in principle they are the same. This case is focused only on the IRP methodology, which is used to compute rates for wind and solar projects larger than 100 kW and for all other projects larger than 10 aMW.

The Commission stated in Order No. 32697 that “utilities must update fuel price forecasts and load forecasts annually – between IRP filings. . . . all other variables and assumptions utilized within the IRP Methodology remain fixed between IRP filings (every two years).” Idaho Power is

currently between IRP filings. The Company's 2013 IRP was accepted by the Commission on February 24, 2014, and its 2015 IRP is expected to be filed on June 30, 2015.

Under the IRP methodology, in years between IRP filings, the utility is supposed to update its load forecast in conjunction with annual updates to natural gas and fuel price forecasts. This was initially set to occur on June 1 of each year. Order No. 32697, p. 22. However, upon clarification and reconsideration, this was later changed to October 15 of each year in order to better accommodate the planning cycles of the utilities. Order No. 32802, p. 3. In this case, Idaho Power is requesting to adjust its load resource balance outside of the October 15 update cycle it would normally follow.

The out-of-cycle adjustment is proposed by Idaho Power in order to include 400 MW of demand response that had previously not been included due to temporary suspension of the programs in 2013 and uncertainty about whether, when, and in what amounts the programs might be reinstated. As summarized by Idaho Power in its Application, in Case No. IPC-E-13-21 relating to the SAR methodology, Idaho Power asked the Commission to approve a capacity deficit period with a first deficit occurring in July 2021, which resulted from the inclusion of 440 MW of demand response. The Company's request was initially denied, primarily for lack of evidence. Upon reconsideration, and based on additional evidence submitted by Idaho Power, the Commission on July 30, 2014 ordered Idaho Power to utilize July 2021 as its first capacity deficit to be used in the Company's SAR methodology. Order No. 33084. Because the Commission agreed to recognize 400 MW of demand response as a resource for purposes of the SAR methodology, Idaho Power believes it would be reasonable to also recognize the same demand response for purposes of the IRP methodology.

For reference, the exact language from Order No. 32697 pertaining to updates under the IRP methodology is reproduced below:

Updates. We find that, in order to maintain the most accurate and up-to-date reflection of a utility's true avoided cost, utilities must update fuel price forecasts and load forecasts annually – between IRP filings. For the sake of consistency, these annual updates should occur simultaneously with SAR updates - on June 1 of each year. In addition, it is appropriate to consider long-term contract commitments because of the potential effect that such commitments have on a utility's load and resource balance. We find it reasonable to include long-term contract considerations in an IRP Methodology calculation at such time as the QF and utility have entered into a signed contract for the sale and purchase of QF power. We further find it appropriate to consider PURPA contracts that have terminated or expired in each utility's load and resource balance. We find it

reasonable that all other variables and assumptions utilized within the IRP Methodology remain fixed between IRP filings (every two years).

In essence, this case presents a question of whether the Commission should follow a strict, literal interpretation of a prior order or whether the Commission's intent as expressed in the order should prevail. A careful reading of the excerpt from Order No. 32697 shown above could lead to a conclusion that the only updates that can be made annually are updates to load forecasts and fuel price forecasts, and that the only out-of-cycle adjustments that are permitted are due to new or terminated PURPA contracts. It could be argued that updates to a utility's load resource balance due to the addition of new utility resources, such as demand response, are not permitted between IRP filings.

On the other hand, it could be argued that the Commission never intended for Order No. 32697 to be dissected and parsed to such a degree that the real intent is lost or diluted. Even though the Commission focused on how PURPA contract commitments affect the utility's load and resource balance, Staff believes the Commission's intent is to recognize all factors that affect the load and resource balance, so that the IRP methodology can more accurately reflect true avoided costs. For example, in another section of the same Order, the Commission stated the following:

In computing avoided cost rates under the IRP Methodology, each of the three utilities already employs a two-step approach in which energy and capacity values are computed separately. 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.

Order No. 32697 at 21.

When both of the passages quoted above are taken together, it seems clear that the Commission is trying to balance accuracy in reflecting a utility's real deficit position, with some degree of certainty for QFs seeking contract rates. By requiring annual updates to load forecasts, fuel price forecasts and long term contracts, the Commission appears to be striving for a dynamic, fluid process to ensure the utility's need for new resources is represented as accurately as possible. Further, if the Commission expects the utility to update its load resource balance each time a new

long term contract is signed or expires, is also seems reasonable to believe the Commission expects that the addition of new utility-owned resources, such as demand response in this case, to also be reflected in the load resource balance at whatever time those resources are added. At the same time, however, QFs need some certainty so that they are not chasing a moving target. In other words, the utility should not be paying for capacity until it is actually needed, but QFs should have some assurance that rates will not be changed except on a predictable schedule.

Obviously, the decision is for the Commission to make, but Staff believes this is an instance in which the Commission's intent should take precedence over a strict interpretation of the Order. In writing its orders, the Commission cannot anticipate every circumstance that may arise or envision every interpretation dispute that could occur. Quite simply, the Commission did not specifically address whether or when demand response should be reflected in determining a utility capacity position. Its intent, however, does seem to be clearly expressed. Moreover, Staff believes it would not be reasonable to ignore 400 MW of demand response resources in calculating avoided cost rates under the IRP methodology, while including those same resources in determining rates under the SAR methodology. Staff believes that the public interest requires that avoided cost rates be as accurate as possible, especially given that the difference to ratepayers could be as much as \$170 million over the next 20 years as suggested by Idaho Power.


It is important to note that this case is an anomaly. Normally demand response would be considered in Idaho Power's IRP process and naturally reflected in the IRP methodology. Unfortunately, because the Company's DR programs were suspended and the future use of DR in meeting customer's capacity needs was unclear, demand response was not considered as part of the Company's resource stack. However, because DR is now known and measureable, it is reasonable to include it as part of the Company's resources available to meet customers' capacity needs. Therefore, Staff recommends that the Commission approve Idaho Power's request to confirm use a first capacity deficit of July 2021 for purposes of avoided cost prices determined by the incremental cost IRP methodology.

With regard to those QFs who may have received indicative pricing from Idaho Power based on a first capacity deficit other than July 2021 and those who may make claims that a legally enforceable obligation (LEO) had been established before the Company revised the indicative prices, Staff recommends that each project be considered individually. Without knowing the specific facts of each case, it would not be practical or appropriate in this case for the Commission to rule as to whether a LEO had been established.

STAFF RECOMMENDATION

Staff recommends that the Commission approve Idaho Power's request to use a first capacity deficit of July 2021 for purposes of avoided cost prices determined by the IRP methodology.

Respectfully submitted this 6TH day of October 2014.



Kristine A. Sasser
Deputy Attorney General

Technical Staff: Rick Sterling
Yao Yin

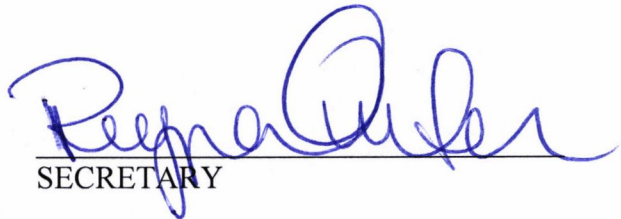
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 6TH DAY OF OCTOBER 2014, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-14-22, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

DONOVAN E. WALKER
REGULATORY DOCKETS
IDAHO POWER COMPANY
P.O. BOX 70
BOISE, ID 83707
E-MAIL: dwalker@idahopower.com
dockets@idahopower.com

RANDY C. ALLPHIN
ENERGY CONTRACT ADMINISTRATOR
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-MAIL: rallphin@idahopower.com



SECRETARY