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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR APPROVAL OR REJECTION OF AN ENERGY SALES AGREEMENT WITH POCATELLO SOLAR 1, LLC FOR THE SALE AND PURCHASE OF ELECTRIC ENERGY.	)	**CASE NO. IPC-E-14-27** **COMMENTS OF THE COMMISSION STAFF**

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 Modified Procedure issued in Order No. 33163 on November 6, 2014, in Case No. IPC-E-14-27, submits the following comments.

BACKGROUND

On October 17, 2014, Idaho Power Company filed an Application with the Commission requesting acceptance or rejection of a 20-year Energy Sales Agreement (ESA; Agreement) between Idaho Power and Pocatello Solar 1, LLC (Facility, Project). The Application states that Pocatello Solar 1 would sell and Idaho Power would purchase electric energy generated by the Project's solar photovoltaic facility located in Power County, Idaho.

The Application states that the proposed Project expects to use mono crystalline solar modules with Tier 1 inverters and utilize a single axis tracking system for its 19.98 megawatt

(MW) solar project. Application at 3. The Facility will be a QF under the applicable provisions of the Public Utility Regulatory Policies Act of 1978 (PURPA). The Agreement is for a term of 20 years and contains incremental cost integrated resource planning (IRP) avoided cost rates applicable to solar projects that exceed 100 kilowatts (kW). Idaho Power states that prices were determined on an incremental basis with the inclusion of this Project in its queued position of proposed projects on Idaho Power's system. Over the 20-year term of the Agreement, the monthly rates vary from approximately $34/megawatt-hour (MWh) for light load hours in early months of the Agreement to as high as $115/MWh for heavy load hours in the latter years of the Agreement based on linear escalations of light load and heavy load monthly rates. The equivalent 20-year levelized avoided cost rate is approximately $61.87/MWh.

The Agreement also contains negotiated solar integration charges as directed by the Commission in Order No. 33043. The solar integration charge starts at a charge of $1.18/MWh for the first year of the Agreement (2017) and escalates to $3.66/MWh in 2036 in the same manner as the monthly energy rates (linear escalation). The equivalent 20-year levelized solar integration charge is approximately $2.01/MWh. The 20-year estimated contractual obligation based upon the estimated generation levels applied to the avoided cost rates and solar integration charges is approximately $75,634,801.

The Project has selected December 31, 2016, as its Scheduled Operation Date. *Id.* at 4. Idaho Power asserts that various requirements have been placed upon the Facility in order for Idaho Power to accept the Project's energy deliveries. Idaho Power states that it will monitor the Facility's compliance with initial and ongoing requirements through the term of the Agreement. Idaho Power explains that the Agreement contains several terms and conditions that vary from previously approved agreements in order to comply with the Commission's recent orders and in order to properly implement the negotiated rates and integration charges. In addition, Idaho Power and Pocatello Solar 1 have agreed to changes in some provisions that the parties propose for Commission approval.

STAFF ANALYSIS

Staff Review of the Purchase Prices in Replacement Appendix E

Staff thoroughly reviewed the purchase prices contained in Replacement Appendix E. The rates are composed of three components: an energy component, a capacity component, and an integration charge.

Energy Component

The avoided cost rates contained in the Agreement were computed using the Incremental Cost, Integrated Resource Plan pricing methodology. Many of the details related to application of that methodology were addressed in Order No. 32697, issued on December 18, 2012 (Case No. GNR-E-11-03). At the time this Agreement between Idaho Power and Pocatello Solar 1 was submitted for Commission approval, no other solar contracts had yet been approved with rates determined using the methodology.

Recently, the Comments of the Commission Staff in Case No. IPC-E-14-19 (Grand View Solar) and Case No. IPC-E-14-20 (Boise City Solar) recommended that the rates contained in the Energy Sales Agreement (ESA) between Idaho Power and each solar Qualifying Facility (QF) be revised to account for energy cost computation issues identified by Staff. Staff recommended two modifications, related to assumptions about the fuel forecast and assumptions about displaceable resources, to the computation of avoided cost rates utilized by the approved Incremental Cost IRP methodology. Idaho Power incorporated Staff's recommended adjustments into the model, and submitted replacement pricing for each ESA. Each QF agreed to replace the pricing in its respective ESA with the replacement pricing that incorporated the revisions recommended by Staff. The Commission then subsequently approved each modified ESA containing the replacement pricing. Order No. 33179 (Grand View Solar); Order No. 33180 (Boise City Solar).

On November 20, 2014, Idaho Power submitted "Initial Comments" in this docket. The purpose of the Initial Comments is to submit for Commission consideration a Replacement Appendix E to the ESA that contains revised prices consistent with pricing methodology changes recommended by Staff and approved for the Grand View and Boise City solar contracts. For comparison purposes, the 20-year levelized rate for the Agreement as originally submitted is $61.87/megawatt-hour (MWh) and the rate from the Replacement Appendix E is $61.52/MWh. The estimated 20-year contractual obligation based upon the originally submitted prices is $75,634,801 and the estimated 20-year contractual obligation with the revised prices is $75,034,321. The levelized integration charge contained in the ESA is the same in both instances at $2.01/MWh.

Staff stands by its comments made in the Grand View and Boise City Solar cases regarding modifications to the Incremental Cost IRP methodology. Staff's proposed modifications were approved by the Commission for both contracts, and Staff believes those modifications are reasonable and appropriate for all future solar contracts, including this one between Idaho Power

and Pocatello Solar 1. Idaho Power states in its Initial Comments that it is unaware of whether Pocatello Solar 1 agrees to adopt the Replacement Appendix E which incorporates Staff's recommended changes to the pricing model.

Subsequent to the changes identified for the Grand View and Boise City contracts and to Idaho Power's submittal of Replacement Appendix E with its Initial Comments, Staff discovered that Idaho Power, in its AURORA analysis, modeled the hourly generation profile using an assumed standardized shape rather than using the Project's actual hourly generation shape. The generation shape assumed by Idaho Power more closely matched that of a "flat plate" solar system instead of a "single axis" system, which is the design for this Project.[1] In production requests, Staff asked Idaho Power to recalculate the avoided cost rates using the Project's actual generation profile instead of a standardized assumed profile. The results indicate a decrease in avoided cost rates. A comparison of the 20-year levelized rates under both scenarios is listed below.[2]

20-year Levelized Rates

	1st Production Request	3rd Production Request	Difference
Pocatello Solar 1	$61.52	$61.33	($0.19/MWh)

Below is the difference in the total 20-year contractual obligation.

20-year Contractual Obligation—Including Integration

	1st Production Request	3rd Production Request	Difference
Pocatello Solar 1	$75,034,621	$74,734,154	($300,467)

Staff believes that the avoided cost rates calculated in Idaho Power's Response to Staff's Third Production Request should be approved instead of the rates included in the original Agreement accompanying the Company's Application and instead of the rates contained in Replacement Appendix E included as Attachment 1 to the Initial Comments of Idaho Power. Should the Commission order that the rates in Idaho Power's Response to the Staff's Third

[1] A flat plate system uses solar panels that are fixed and do not track movement of the sun in any direction. A single axis system uses panels that track the sun's movement in one direction, while a dual axis system tracks movement of the sun in two directions. Each configuration will have different hourly generation profiles throughout the day.

[2] These rates and 20-year contractual obligation amounts are based on an assumption of a July 2021 capacity deficiency period.

Production Request be substituted for the rates in the original Agreement, Staff believes the parties should be directed to prepare and submit for Commission approval a contract amendment incorporating a revised Appendix E containing rates consistent with Idaho Power's Response to the Staff's Third Production Request.

Capacity Component

The capacity component of the rates was computed by Idaho Power consistent with the approved Incremental Cost IRP methodology. However, in making the computations, the Company assumed two different capacity deficiency periods because Idaho Power and Pocatello Solar 1 disagreed on which deficiency period assumption is correct. First, Idaho Power assumed a capacity deficiency period extending until July 2021. In other words, no capacity component is included in the avoided cost rates until July 2021. Rates in Appendix E are based on this assumption. Second, Idaho Power assumed a capacity deficiency extending only until July 2016. Rates in Appendix F are based on this assumption. The parties agreed to submit two alternative pricing schedules to the Commission with the ESA, and further agreed that each party will accept, abide by, and be bound by the Commission's determination as to the appropriate pricing schedule for the ESA.

The determination of the proper capacity deficiency to use in the avoided cost calculations has recently been an issue in two separate Commission dockets. First, in Case No. IPC-E-13-21, the Commission approved use of July 2021 as Idaho Power's first capacity deficit in the SAR methodology by allowing up to 400 MW of demand response to be counted as a resource. (Final Order on Reconsideration No. 33084, July 30, 2014). The SAR methodology is used to compute avoided cost rates for solar and wind projects 100 kW or smaller, and for other types of projects smaller than 10 aMW. Second, in Case No. IPC-E-14-22, the Commission approved use of July 2021 as the first capacity deficit for purposes of the Incremental Cost IRP methodology. (Order No. 33159, October 29, 2014).

In both of the cases cited above, Idaho Power had not included demand response programs in its 2013 IRP, but had already achieved an enrolled demand response capacity in excess of 400 MW in 2014 at the time the Commission approved a July 2021 capacity deficit period. Staff believes use of a July 2021 first capacity deficit is appropriate because it accurately reflects Idaho Power's resource/deficit position. Moreover, selection and use of this capacity deficiency assumption is consistent with the findings in Case No. IPC-E-14-22. Consequently, Staff

recommends that Appendix F rates be rejected in favor of Appendix E rates consistent with the energy rate adjustments discussed previously and reflected in Idaho Power's Response to Staff's Third Production Request.

Solar Integration Charges

Idaho Power states that the solar integration charges incorporated in the Agreement are negotiated rates agreed upon by the parties, and exactly match the solar integration charges proposed by Idaho Power in Case No. IPC-E-14-18. The integration charges proposed in IPC-E-14-18 were based on the results of the Company's 2013 Solar Integration Study. The proposed solar integration charge starts at $1.18/MWh for the first year of the Agreement (2017) and escalates to $3.66/MWh in 2036. The equivalent 20-year levelized solar integration charge is approximately $2.01/MWh.[3]

The Commission has yet to approve the solar integration charges proposed by Idaho Power in Case No. IPC-E-14-18. Direct Testimony was filed by Staff and other intervenors on October 28, 2014, and a technical hearing was initially scheduled for November 13, 2014. The technical hearing was vacated, and instead the parties met for a settlement conference on November 17, 2014. No settlement has yet been submitted to the Commission for approval as of the date of filing of these comments, yet Staff believes such a filing is imminent.

Because the proposed integration charges have been agreed to by both parties, and because they also exactly match the solar integration charges proposed by Idaho Power in Case No. IPC-E-14-18, Staff believes the solar integration charges are reasonable and recommends approval.

90/110 Firmness Requirement

The Agreement contains provisions for a 90/110 firmness requirement, solar integration charge and pricing adjustment. Idaho Power states that the 90/110 requirement addresses the Commission's definition of firmness for entitlement to avoided cost rates determined at the time of contracting for the duration of the contract. The solar integration charge addresses the

[3] The integration charges in Appendix E, Appendix F, Replacement Appendix E, Replacement Appendix F, and Idaho Power's response to Staff's Third Production Request are all different on an annual basis, but are the same on 20-year levelized basis. The annual differences are due to the Project's desire for linearly escalating rates. Consequently, whenever the energy rates in the Agreement are adjusted, the integration charges must also be adjusted so as to maintain an equivalent 20-year levelized value.

increased system operation costs (holding reserves, upward and downward regulation) because of the variable and intermittent nature of the generation. The parties further negotiated and agreed to provisions that provide for a new type of price adjustment that is uniquely applicable to contracts that utilize the incremental IRP pricing methodology. The purpose of this price adjustment mechanism is to require that the Project performs in conformance with the generation profile that the Project submits, which forms the basis for the avoided cost pricing that is contained in the Agreement and locked in for the 20-year term. If the Project does not perform in conformance with the generation profile as submitted, then a corresponding adjustment is made to the price paid for that month of generation. The Agreement allows for a two percent deviation in the monthly Adjusted Estimated Net Energy Amount from the generation profile estimates before a price adjustment is applied. Consistent and material deviations from the hourly energy estimates in the generation profile will be considered a material breach of the Agreement.

Additional Contract Provisions

New provisions providing for actual delay damages as opposed to liquidated damages are included in the Agreement, consistent with Order No. 32697. The parties negotiated a 50/50 split of environment attributes (aka renewable energy credits). As with all PURPA QF generation, the Project must be designated as a network resource (DNR) to serve Idaho Power's retail load on its system. Consequently, the Agreement contains provisions requiring completion of a Generator Interconnection Agreement (GIA), compliance with GIA requirements, and designation as an Idaho Power network resource as conditions of Idaho Power accepting delivery of energy and paying for the same under the Agreement. In order for the Project to maintain its DNR status, there must be a power purchase agreement associated with its transmission service request that maintains compliance with Idaho Power's non-discriminatory administration of its Open Access Transmission Tariff (OATT) and maintains compliance with FERC requirements.

Staff believes these additional contract provisions are reasonable and comply with prior Commission orders.

RECOMMENDATIONS

Staff recommends that the Commission issue an order accepting the Agreement between Idaho Power and Pocatello Solar 1, incorporating the avoided cost rates consistent with Idaho Power's Response to Staff's Third Production Request. Staff further recommends use of

Appendix E and rejection of Appendix F for purposes of capacity deficiency. Staff recommends no other changes to the terms and conditions of the Agreement. Finally, Staff recommends that the Commission declare that all payments for purchases of energy under the Agreement be allowed as prudently incurred expenses for ratemaking purposes.

Respectfully submitted this 19TH day of December 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 19TH DAY OF DECEMBER 2014, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-14-27, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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