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## BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| **IN THE MATTER OF THE ANNUAL COMPLIANCE FILING OF IDAHO POWER COMPANY TO UPDATE THE LOAD AND GAS FORECASTS IN THE INCREMENTAL COST INTEGRATED RESOURCE PLAN AVOIDED COST MODEL** | ) ) ) ) ) ) ) | **CASE NO. IPC-E-17-15**<br><br>**COMMENTS OF THE COMMISSION STAFF** |

**STAFF OF** the Idaho Public Utilities Commission, by and through its Attorney of record, Daphne Huang, Deputy Attorney General, submits the following comments.

### BACKGROUND

On October 13, 2017, Idaho Power Company filed its annual update to certain components of its avoided cost rate calculation for qualifying facilities (QF) under the Public Utility Regulatory Policies Act of 1978 (PURPA). Specifically, Idaho Power updated the load forecast, natural gas forecast, and contract information components that it uses to calculate avoided cost rates under the incremental cost Integrated Resource Plan (IRP) method, and asks the Commission to accept the updated information for filing.

Under PURPA, electric utilities must purchase electric energy from QFs at rates approved by the applicable state agency—in Idaho, this Commission. 16 U.S.C. § 824a-3; *Idaho Power Co. v. Idaho PUC*, 155 Idaho 780, 780, 316 P.3d 1278, 1287 (2013). The purchase or "avoided cost" rate shall not exceed the "'incremental cost' to the purchasing utility of power which, but for the purchase of power from the QF, such utility would either generate itself or purchase from another source." Order No. 32697 at 7, *citing Rosebud Enterprises v. Idaho PUC*, 128 Idaho 624, 917 P.2d 781 (1996); 18 C.F.R. § 292.101(b)(6)(defining "avoided cost").

The Commission has established two methods of calculating avoided costs, depending on the size of the QF project: (1) the surrogate avoided resource (SAR) method, and (2) the IRP method. *See* Order No. 32697 at 7-8. With respect to the IRP method, the Commission requires utilities to update fuel price forecasts and load forecasts each year on October 15. Order No. 32802 at 3. All other IRP method variables and assumptions remain fixed between the biennial IRP filings. Order No. 32697 at 22. The Commission expects the utility's load and resource balance to account for long-term contract commitments, and PURPA contracts that have terminated or expired. *Id.*

In its Application, Idaho Power proposes to update its load forecast, natural gas forecast, and contract information. The Company explains that the information has been incorporated into its IRP avoided cost model and that it will use the model to begin negotiating contractual avoided cost rates as of October 15, 2017. Application at 2.

## STAFF ANALYSIS

Staff reviewed the Company's Application, and reports as follows.

### Updated Load Review

Idaho Power's updated load forecast is from October 2017 and shows, on average, an increase in its customer loads when compared to last year's load forecast update. Staff compared Idaho Power's proposed average annual load forecast from 2017 through 2034 to last year's filing in Case No. IPC-E-16-22. The comparison shows that the 2017 forecast is 1.76% higher than the 2016 forecast. The Company justifies this increase in its 2017 IRP due to continued economic improvement in the Company's service territory. Staff agrees with the Company's rationale and finds the new forecast is reasonable.

### Updated Natural Gas Review

In this case, Idaho Power proposes to update the gas price forecast using the Energy Information Administration's (EIA) "Natural Gas Henry Hub Spot Price: High Oil and Gas Resource and Technology" forecast, published on January 5, 2017. The Company adjusted it for pricing at the Sumas hub and for transportation cost to the Idaho City Gate. The Company changed the forecast it used from last year's update which used EIA's "Natural Gas Henry Hub Spot Price Reference Case." The 2017 IRP switched to the same EIA forecast and has not been accepted by the Commission. The Company explains that the 2017 forecast shows "a decrease in the average annual natural gas prices over the remaining period" compared to the 2016 forecast. Idaho Power believes the new forecast method more closely aligns with current and future expectations.

Staff concedes it is difficult to determine the accuracy of any forecast, especially a forecast with a 20-year time horizon. Idaho Power states the High Oil and Gas Resource and Technology Case is supported by future trading prices from the Intercontinental Exchange (ICE). *See* Production Response No. 2. However, Staff has similar concerns in this case regarding the change in the Company's natural gas price forecast as those expressed in Staff comments filed in Case No. IPC-E-17-11, Application for Acceptance of the 2017 Integrated Resource Plan. Staff maintains that ICE transactions reflect the price for which today's market players are willing to buy and sell options over the next seven years, rather than a reflection of actual future spot market prices over the 20-year forecast period. Staff also maintains that using a gas price forecast estimated to be in the 5 to 10 percentile range, reflecting some of the lowest possible gas price forecasts is in stark contrast to the Company's water and load assumptions in the 70 to 95 percentile range, reflecting some of the highest possible water and load conditions.

Nevertheless, Staff recommends accepting the Company's new gas price forecast in this case but urges the Company to look closely at the assumptions and caveats the EIA uses to develop the various gas price forecasts. The Company should then be prepared to explain why its chosen forecast with the underlying assumptions is more reasonable than the gas price forecast used in previous IRPs or natural gas updates.

**Contract Terminations, Expirations, and Additions**

Since last year's filing, Idaho Power has added 23.75 MG from four new PURPA solar projects, 5 MW from one new Idaho biomass PURPA project, and 2.75 MW from three replacement PURPA hydro projects. In addition, Magic Valley cogeneration project and Mill Creek Hydro project, totaling 10.8 MW, have expired. Staff verified this information and found it to be accurate.

**STAFF RECOMMENDATION**

Staff recommends approval of the updated load forecast, natural gas forecast, and long-term contracts to be used in the IRP methodology. Staff also recommends that if the Company uses a different EIA forecast as its base forecast, the Company must justify the change including an examination of the underlying assumptions that EIA or other third party entities used to develop that forecast.

Respectfully submitted this 7th day of December 2017.

Daphne Huang
Deputy Attorney General

Technical Staff: Yao Yin
Stacey Donohue
Kevin Keyt

i:umisc/comments/ipce17.15djhyysdksk comments

# CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 7TH DAY OF DECEMBER 2017, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-17-15, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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