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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE ANNUAL)	
COMPLIANCE FILING OF IDAHO POWER)	CASE NO. IPC-E-18-13
COMPANY TO UPDATE THE LOAD AND GAS)	
FORECASTS IN THE INCREMENTAL COST)	COMMENTS OF THE
INTEGRATED RESOURCE PLAN AVOIDED)	COMMISSION STAFF
COST MODEL)	
)	

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Edith Pacillo, Deputy Attorney General, and in response to the Notice of Application and Modified Procedure issued in Order No. 34180 on November 5, 2018, in Case No. IPC-E-18-13, submits the following comments.

BACKGROUND

On October 15, 2018, 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 price 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.

In Idaho, under PURPA, electric utilities must purchase electric energy from QFs at rates approved by the Commission. 16 U.S.C. § 824a-3; *Idaho Power Co. v. Idaho PUC*, 155 at

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 cost, 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. The Commission uses the SAR method to establish what are commonly referred to as “published” avoided cost rates. *Id.* Published rates are available for wind and solar QFs¹ with a design capacity of up to 100 kilowatts (kW), and for QFs of all other resource types with a design capacity of up to 10 average megawatts (aMW). On the other hand, if a QF’s design capacity is above the published rate eligibility caps, the utility must use the QF IRP method to negotiate a project-specific avoided cost rate with the QF. *Id.* at 2; Order No. 32176. The QF IRP method accounts for “many different variables and produces a[n avoided cost] result based on each individual utility’s need for energy.” Order No. 32697 at 17. The QF IRP method’s variables are at issue here.

With respect to the QF 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.*

With this Application, Idaho Power updates its load forecast, natural gas price forecast, and contract information. The Company explains that the information has been incorporated into its QF IRP avoided cost model and that it will use the model to begin negotiating contractual avoided cost rates as of October 15, 2018.

Idaho Power’s updated load forecast is from October 2018 and “shows, on average, a decrease in its customer loads when compared to the October 2017 load forecast that was provided to the Commission for the 2017 update in Case No. IPC-E-17-15 and approved by the

¹ *See* Order No. 33785 (regarding battery storage facilities).

Commission in Order No. 33957.” *Id.* at 2-3. Idaho Power provides both the October 2017 and the October 2018 average annual load forecasts for years 2017 through 2036. *Id.* at 3.

Idaho Power’s updated natural gas price forecast is the Energy Information Administration’s (EIA) Natural Gas Henry Hub Spot Price: High Oil and Gas Resource and Technology forecast, published on February 6, 2018. *Id.* at 4. Idaho Power uses the same forecast, adjusted for pricing at Sumas and transport for Idaho City Gate delivery, in its 2018 IRP process. *Id.* The Company explains that the 2018 forecast shows “a decrease in the average annual natural gas prices over the remaining period” compared to the 2017 forecast. *Id.* at 4-5. Idaho Power provides both the 2017 and the 2018 forecasts for years 2018 through 2036. *Id.* at 5.

Idaho Power explains it has the following contract changes: (a) three non-PURPA, long-term power purchase agreements for 136 MW; (b) 134 PURPA QFs with a name plate capacity of 1,149 MW; (c) a new Oregon solar QF energy sales agreement (ESA) for 3.00 MW; (d) one new Idaho hydro QF ESA for 2.10 MW; and (e) four replacement ESAs for existing Idaho QF projects totaling 7.17 MW. *Id.* Attachment 1. The Company indicates it continuously includes new ESAs, terminated or expired contracts, and new complete ESA applications in its avoided cost IRP model. *Id.* at 6.

STAFF REVIEW

Staff has reviewed the Company’s Application and recommends approval of the updated load forecast, natural gas price forecast, and long-term contracts to be used in the QF IRP methodology. Staff finds that the differences between this year’s forecasts and last year’s forecasts are acceptable for both load and natural gas prices and that the contract information is accurate. Therefore, Staff recommends approval of the updated load forecast, natural gas price forecast, and long-term contracts to be used to calculate avoided cost rates in the Company’s QF IRP methodology with an effective date of October 15, 2018.

Load Forecast

Staff has compared the Company’s annual system load forecast in this filing to last year’s filing in Case No. IPC-E-17-15 and finds the new forecast reasonable based on the comparison. The comparison shows that the Company’s 2018 forecast decreases by 1.89%. Staff believes that this change reflects a continuing trend of overall economic conditions in Idaho Power’s

service territory that was used to develop last year's load forecast. If the Commission authorizes the load forecast, the small size of the reduction should not have a significant effect on avoided cost rates in future IRP-based QF contracts.

Natural Gas Price Forecast

Last year, the Company changed the source of its natural gas price forecast to EIA's Natural Gas Henry Hub Spot Price: High Oil and Gas Resource and Technology forecast that the Company then adjusted for pricing at the Sumas Hub and for transportation cost to the Idaho City Gate. The Company has continued using this price forecast and method of adjustment for this year's forecast. Despite concerns outlined below, Staff recommends the Commission approve the Company's proposed price forecast to update the avoided cost rates in the QF IRP methodology.

Staff compared the Company's natural gas price forecast to last year's filing in Case No. IPC-E-17-15. The difference between the 2018 forecast and the 2017 forecast ranges from -22.45% to -3.73% for years 2019 through 2036 (see Figure 1). According to EIA, the reduction in natural gas price projections from the 2017 forecast can be attributed to increased natural gas production from continued development of shale gas and tight oil plays, which is projected to outpace gas consumption. (See EIA Annual Energy Outlook 2018: with projection to 2050). Because natural gas market conditions are predicted to continue to be favorable, Staff believes that the change in the Company's natural gas price is acceptable.

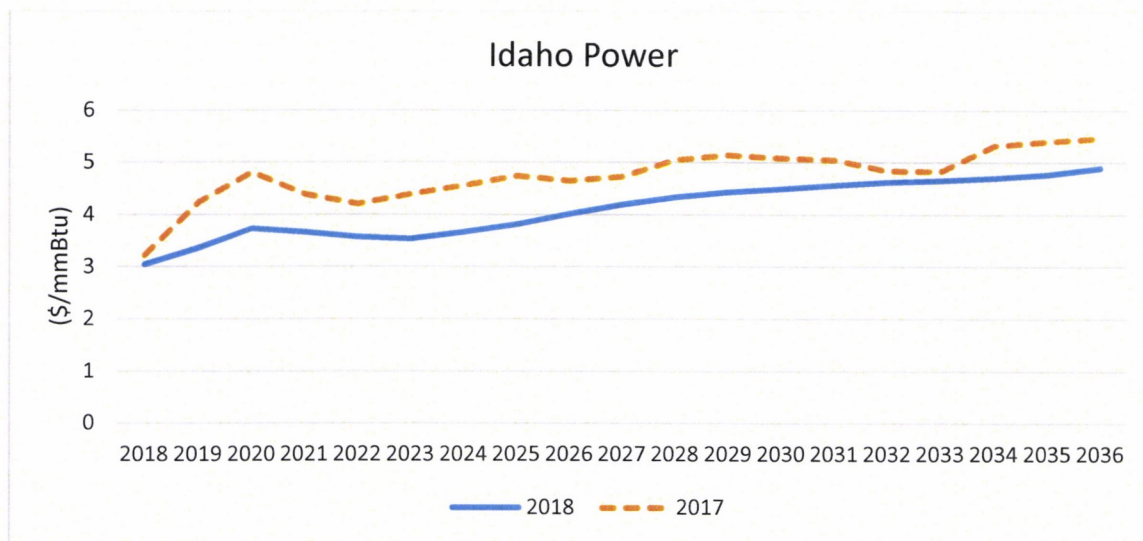


Figure 1 Idaho Power's 2018 Forecast and 2017 Forecast for Henry Hub prices adjusted for pricing at the Sumas Hub and for transportation cost to the Idaho City Gate

However, Staff has two concerns regarding the Company's natural gas price forecast. First, Staff reiterates its concerns regarding the Company's decision to change from using EIA's Henry Hub Reference Case forecast to EIA's Natural Gas Henry Hub Spot Price: High Oil and Gas Resource and Technology forecast in the Company's 2017 IRP and last year's load forecast and natural gas price forecast QF IRP-method annual update (*see* Staff Comments, Case Nos. IPC-E-17-11 and IPC-E-17-15). In those cases, the Company justified using the EIA High Oil and Gas Resource price forecast, because it aligned more closely with natural gas futures market pricing. Although Staff believes that futures market prices are indicators of natural gas prices for the first few years, Staff does not believe that extrapolating futures market pricing over a 20 year-time horizon is an acceptable method for choosing a long-term forecast.

Second, Staff also has concerns regarding the first 2 to 3 years of the Company's natural gas price forecast. This period is critical for IRP-based PURPA contracts that are capped at a two-year contract term. The 2017 EIA forecast reflected a spike in natural gas prices during this time frame, which Staff does not believe matched natural gas futures market prices and predicted near-term market conditions. This spike has been smoothed in this year's natural gas price forecast, but it is still higher than short-term natural gas futures prices and market trends. This could result in overstated QF avoided cost rates for IRP-based PURPA contracts.

Staff identified this concern by comparing Idaho Power's forecast to Avista's, Rocky Mountain Power's (RMP), and two of the U.S. Energy Information Administration's (EIA) Henry Hub price forecasts. Although all the forecasts reflect a similar trend that shows natural gas prices at Henry Hub increasing over time, Idaho Power's natural gas price forecast is higher than both Avista's and RMP's forecasts from 2019 through 2022 (see Figure 2). These utilities do not use EIA's forecasts, but instead use a combination of third party forecasts over the long term and natural gas futures market prices for the short term. This deviation may indicate that the starting conditions and assumptions in the EIA's natural gas price forecasts may not reflect actual short-term market conditions or QF avoided cost for two-year PURPA contracts. In addition, Avista and RMP's forecasts both significantly exceed Idaho Power's forecast in the later years.

Staff encourages the Company to look closely at the assumptions and caveats the EIA uses to develop the various gas price forecasts over the short and long term. This research should be discussed with participants in the IRP as part of the natural gas price forecast analysis.

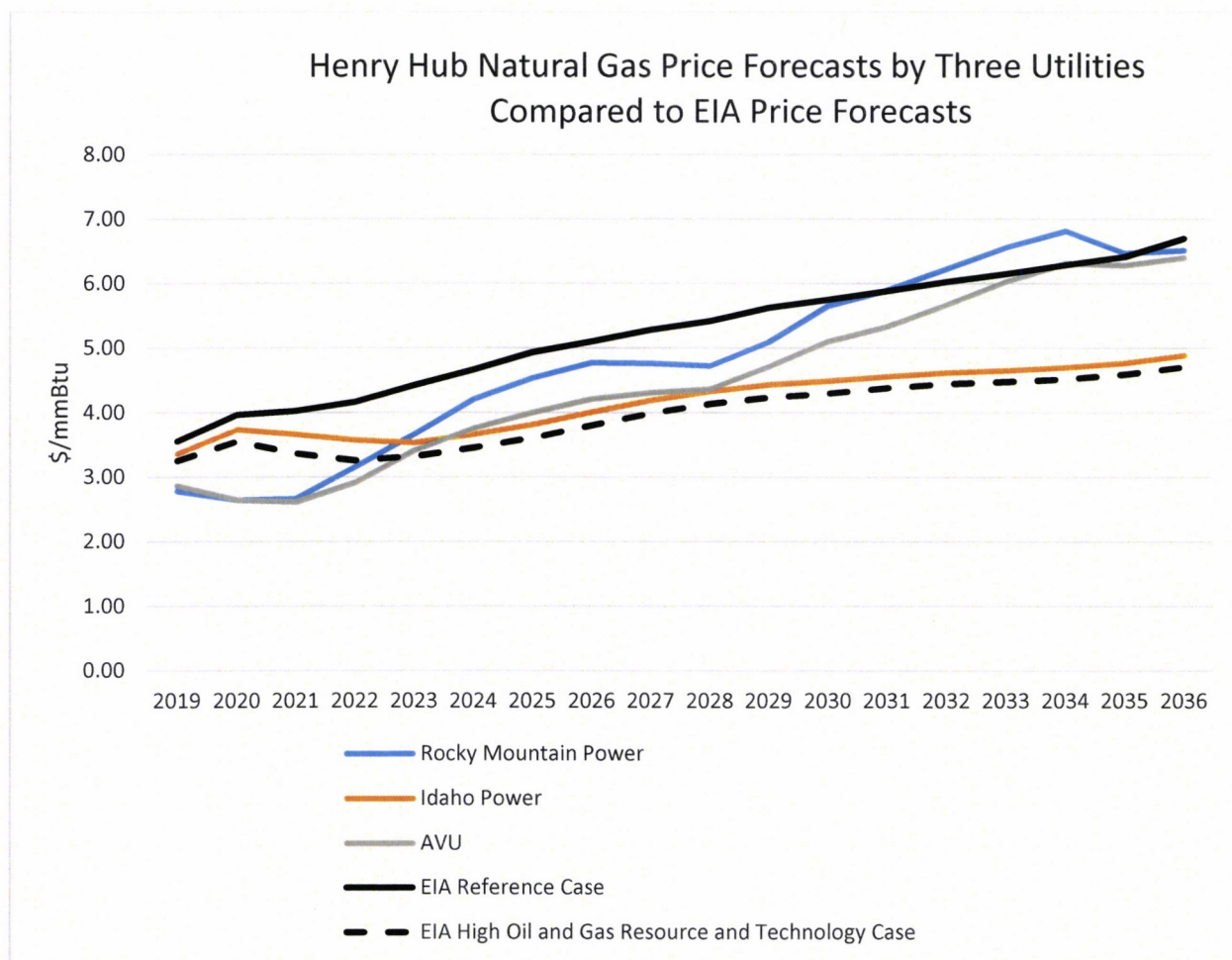


Figure 2 Comparing Three Utilities' Henry Hub Price Forecasts to EIA's Henry Hub Price Forecasts


Contract Terminations, Expirations, and Additions

Staff has verified the contract information and finds it accurate. Since filing Case No. IPC-E-17-15, the Company has signed one new Oregon solar QF ESA for 3MW, one new Idaho hydro QF ESA for 2.1MW, and four replacement ESAs for existing Idaho QF projects for 7.17MW.

STAFF RECOMMENDATIONS

Staff believes the load forecast, the natural gas price forecast, and the contract information submitted by Idaho Power reflect their most recent estimates and comply with Order Nos. 32697 and 32802. Staff recommends approval of the updated load forecast, natural gas price forecast, and long-term contracts to be used to calculate avoided cost rates in the Company's QF IRP methodology rate calculation with an effective date of October 15, 2018.

Respectfully submitted this 27th day of November 2018.


For _____
Edith Pacillo
Deputy Attorney General

Technical Staff: Yao Yin
Rachelle Farnsworth

Umisc/comments/ipce18.13epyyrfsd comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 27TH DAY OF NOVEMBER 2018, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-18-13, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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