

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF PACIFICORP DBA)
ROCKY MOUNTAIN POWER'S) **CASE NO. PAC-E-15-12**
APPLICATION TO APPROVE CAPACITY)
DEFICIENCY FOR AVOIDED COST)
CALCULATIONS) **ORDER NO. 33425**
_____)

In December 2012, the Commission directed each electric utility to initiate a case outside of its Integrated Resource Plan (IRP) filing to establish the “capacity deficiency period” for calculating avoided cost under the surrogate avoided resource (SAR) methodology. Order No. 32697. On October 13, 2015, PacifiCorp dba Rocky Mountain Power (the “Company”) filed an Application asking the Commission to approve its updated capacity deficiency period for use in its SAR-based avoided cost calculations. The Commission issued a Notice of Application and Notice of Modified Procedure with a 21-day comment period. *See* IDAPA 31.01.01.201-210. Staff timely filed the only written comments, and the Company timely replied.

The Commission has reviewed the Application, and comments of Staff and the Company, and now approves the Application as discussed below.

BACKGROUND

Under the Public Utility Regulatory Policies Act (PURPA), electric utilities must purchase electric energy from qualifying facilities (QFs) at rates approved by the applicable state regulatory agency – in Idaho, this Commission. 16 U.S.C. § 824a-3; *Idaho Power Co. v. Idaho PUC*, 155 Idaho 780, 789, 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) methodology, and (2) the integrated resource plan (IRP) methodology. *See* Order No. 32697 at 7-8. The Commission uses the SAR methodology to establish what are commonly referred to as “published” avoided cost rates. *Id.*; 18 C.F.R. § 292.304(c). Published rates are available for wind and solar QFs

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). Order No. 32697 at 7.

In calculating avoided cost, the Commission found it “reasonable, appropriate and in the public interest to compensate QFs separately based on a calculation of not only the energy they produce, but the capacity that they can provide to the purchasing utility.” *Id.* at 16. As to the capacity calculation, the Commission found it appropriate “to identify each utility’s capacity deficiency based on load and resource balances found in each utility’s IRP.” *Id.* The Commission elaborated:

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 directed that “when a utility submits its [IRP] to the Commission, a [separate] case shall be initiated to determine the capacity deficiency to be utilized in the SAR Methodology.” *Id.* at 23. The Commission also stated “utilities must update fuel price forecasts and load forecasts annually – between IRP filings. . . . We find it reasonable that all other variables and assumptions utilized within the IRP Methodology remain fixed between IRP filings (every two years).” *Id.* at 22.

THE APPLICATION

Rocky Mountain filed its 2015 IRP (Case No. PAC-E-15-04) with the Commission in March 2015. The Company’s 2015 IRP included the results of its capacity balance – the net of its surplus and deficiency – which is “calculated for summer peak loads only.” Application at 3. Also, the 2015 IRP showed “that the Company first becomes capacity deficient in 2020.” *Id.* According to the 2015 IRP, “[a]vailable system capacity is increased in the summer of 2021 with the expiration of a legacy exchange contract, and the system falls short again in 2023.” *Id.*

Rocky Mountain identified three factors affecting the capacity deficit period reflected in its 2015 IRP: (1) additional power purchase agreements signed with QFs since preparation of the 2015 IRP; (2) termination of power purchase agreements that were included in the 2015 IRP;

and (3) changes to the Company’s load forecast. *Id.* at 4. Rocky Mountain’s Application included Table 2, attached here, showing “updated system capacity loads and resources.” *Id.*

Table 2
Updated System Capacity Loads and Resources

Calendar Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
<i>System (MW)</i>											
Updated Load Forecast Impact	(25)	(51)	(56)	(16)	26	15	20	14	10	4	7
Updated Obligation + Reserves	11,412	11,189	11,364	11,557	11,722	11,845	11,983	12,094	12,220	12,263	12,340
Signed PPAs not included in IRP	0	0	213	216	214	213	212	210	209	208	206
Terminated PPAs included in IRP	(1)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)	(12)
Updated Resources	12,237	11,700	12,013	12,089	12,015	11,994	12,354	12,313	12,324	12,290	12,173
Updated SAR Resource Sufficiency / (Deficiency)	825	511	649	532	294	150	372	219	104	27	(167)

Table 2 reflects the inclusion of 564 MW of nameplate capacity from 23 additional QF contracts, as well as the removal of two QF contracts, thus eliminating 82 MW of nameplate capacity and roughly 12 MW of system capacity contribution. *Id.* at 4-5.

In determining its first capacity deficit date, the Company proposed to include 1,670 MW of available “Front Office Transactions” (FOTs) in each year. The Company’s 2015 IRP described its systemwide FOTs as “proxy resources, assumed to be firm, that represent procurement activity made on an ongoing forward basis to help the company cover short positions.” PacifiCorp 2015 IRP at 128. Although FOTs can be made years or months in advance, most are made “on a balance of month, day-ahead, hour-ahead, or intra-hour basis.” *Id.* In other words, as part of its IRP, Rocky Mountain designated an amount of resources, identified as FOTs, to be met by short-term firm market purchases. The Company’s FOT limits are developed based on the Company’s active participation in wholesale markets, and consideration of physical delivery constraints, market liquidity and market depth, and regional resource supply. *Id.* at 128-29.

The Company calculated that it will be capacity deficient by 167 MW in the summer of 2025. Application at 4. Rocky Mountain thus asked the Commission to issue an Order establishing its capacity deficiency period beginning in the summer of 2025, for use in calculating its SAR-based avoided cost rates.

STAFF COMMENTS

Staff recommended that FOTs not be included in the Company’s determination of capacity deficiency. Staff observed that FOTs “generally do not represent committed market

purchases, except perhaps in the very near term.” Comments at 4. The Company’s Application did not indicate that the FOTs identified therein are committed market purchases. *Id.* Staff further expressed:

Uncommitted resources, regardless of whether they are FOTs (i.e., market purchases), Company-owned generation plants, or long-term power purchase agreements, should not be counted in determining a utility’s capacity deficit position for purposes of SAR avoided cost calculations.

Id. (emphasis original).

In support, Staff pointed to the obligation under PURPA for utilities “to purchase any energy and capacity made available from [QFs].” Comments at 5, *citing* 18 C.F.R. § 292.303(a). According to Staff, this obligation “does not permit utilities to reject [QFs’] offers to sell . . . in lieu of utility purchases from the market.” *Id.*

Staff also noted that “including FOTs in determining the utility’s first capacity deficit would be inconsistent with [Rocky Mountain’s] practices in the past.” *Id.* The current SAR model, including input from Rocky Mountain’s 2013 IRP, “adopts the system position, exclusive of FOTs, to represent the capacity balance.” *Id.* However, Staff acknowledged that Rocky Mountain’s proposal may be consistent with Idaho Power’s past practices. *Id.*

Staff proposed an alternate capacity balance, excluding FOTs, as set forth in the following Table.

Capacity Balance in 2013 and 2015

Calendar Year	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
System Position 2013	(1,228)	(1,469)	(1,688)	(1,888)	(2,100)	(2,274)	(2,081)	(2,308)	(2,308)	(2,308)	(2,308)
Updated System Position 2015	(844)	(1,159)	(1,021)	(1,137)	(1,376)	(1,520)	(1,298)	(1,451)	(1,565)	(1,643)	(1,837)

Under Staff’s proposal, the Company would be capacity deficit in 2015, as compared to the Company’s request of 2025, and Rocky Mountain’s avoided cost rates under the SAR methodology would not change. Staff recommended that the Commission reject Rocky Mountain’s request, and instead adopt summer 2015 as the first capacity deficit.

ROCKY MOUNTAIN’S REPLY

Responding to Staff’s concerns about its obligation under PURPA, Rocky Mountain contended that “inclusion of FOTs in determining the SAR deficiency period does not serve as a rejection of QF purchases.” Reply at 2. Instead, FOTs are “a means to recognize in standard avoided costs[,] the timing and costs of the different resources used to balance the Company’s

capacity needs and achieve the ratepayer indifference standard mandated by PURPA.” *Id.* Rocky Mountain asserted, “Staff’s recommendation to adopt summer 2015 as the first capacity deficit fails to recognize the Company’s ability to utilize its existing firm transmission capacity to procure resources in the wholesale market rather than acquire a new generating resource at a higher cost.” *Id.* at 3. In essence, the Company maintained that its transmission system provides access to cheaper power than building new generation, acquiring long-term firm power contracts or PURPA contracts.

Rocky Mountain stated that its “FOT selections are as committed and specific as its 2018 [Combined Cycle Combustion Turbine (CCCT)], which the Commission has found appropriate for determining the avoided costs for large QFs.” *Id.* Rocky Mountain pointed out that, although Staff asserted “utilities should not be allowed to rely on uncommitted, non-specific market purchases,” the alternative is “to use the costs of an uncommitted, non-specific CCCT.” *Id.* at 3-4.

The Company reported that its FOTs “represent firm transmission rights currently owned by the Company and included in customers’ rates, which enable access to diverse wholesale market resources.” *Id.* at 4. For purposes of its IRP, the Company relies on FOTs “because they provide the best balance of cost and risk.” *Id.* at 5. According to Rocky Mountain, “Recognizing the [FOTs’] 1,670 MW of firm transmission access to wholesale markets in the determination of the SAR deficiency period more closely aligns the capacity deficit period with the Company’s IRP and the costs that can be avoided by the addition of a QF.” *Id.* Rocky Mountain contended that “retail customers end up paying more than avoided costs” if the Company is not allowed to recognize FOTs when determining the SAR deficit period. *Id.* at 5-6 (*see* Figure 2). If FOTs are ignored, the Company asserted, customers “avoid [the cost of] firm market purchases but incur the fixed and variable costs of a CCCT that will not be avoided by the Company.” *Id.* Rocky Mountain further noted that its risk management policy “generally precludes [it] from entering into long term transactions with terms longer than three years,” allowing the Company “flexibility to serve load while managing the risk of changing wholesale market prices.” *Id.*

Finally, the Company observed that Idaho Power made a similar assumption “regarding access to wholesale market purchases in its IRP and in its determination of the first capacity deficiency for the SAR method that was just approved by the Commission.” *Id.* at 7.

The Company contended, “Inconsistent treatment for PacifiCorp in the current case will result in avoided cost rates that are approximately \$20/MWh higher for PacifiCorp compared to Idaho Power each year through 2023.” *Id.* This disparity, the Company argued, will encourage QF developers in Idaho Power’s service territory “to obtain a transmission wheel to PacifiCorp to take advantage of higher prices” despite the fact that the Company has no need for new resources in the next decade. *Id.* at 7-8.

Rocky Mountain thus asked the Commission to approve its Application as filed, identifying summer 2025 as the first capacity deficit for use in the SAR model.

DISCUSSION AND FINDINGS

The Idaho Public Utilities Commission has jurisdiction over PacifiCorp dba Rocky Mountain, an electric utility, and the issues raised in this matter under the authority and power granted it under Title 61 of the Idaho Code and PURPA. The Commission has authority under PURPA and Federal Energy Regulatory Commission (FERC) regulations to set avoided costs, and to order electric utilities to enter into fixed-term obligations for the purchase of energy from QFs. Execution of FERC regulations – as in this case – and the discretion to do so, are left to this Commission. *See Idaho Power Co. v. Idaho PUC*, 155 Idaho 780, 782, 316 P.3d 1278, 1280 (2013), *citing FERC v. Mississippi*, 456 U.S. 742, 751 (1982).

The issue before us is whether to allow Rocky Mountain to include its ability to use transmission capacity in determining a date for capacity deficiency, as proposed by the Company. In its Application, the Company described short-term purchases through its transmission system as “Front Office Transactions,” or FOTs. Because our discussion centers not on the FOTs themselves, but on the Company’s ability to make such purchases, we will refer to that ability, using the term “import capability.”¹

The SAR method treats generation from a CCCT plant the same as it would generation from a QF project for purposes of determining published avoided cost rates.² With this in mind, the question here is whether a utility’s import capability – its ability to make short-term purchases using its transmission capacity – should be treated the same as available

¹ Idaho Power used the term “import capability” in its 2015 IRP. Idaho Power 2015 IRP at 66, 73, 93, 134 (Case No. IPC-E-15-19).

² The SAR method “estimates a utility’s avoided costs to be applied to QF generation by calculating the cost of a surrogate avoided resource,” which is currently a natural gas-fired CCCT. Order No. 32697 at 7-8.

generation resources such as a signed QF contract or generation from its own plant. We find that it should.

To balance its capacity needs, Rocky Mountain uses existing plant generation, QF contracts, *and* available transmission capacity. We agree with Rocky Mountain that including firm transmission import capability in determining capacity deficiency recognizes the Company's use of its existing resources. *See* Reply at 3. Import capability constitutes capacity. Exclusion of import capability from the capacity deficiency determination would fail to properly account for the Company's mix of existing resources and the timing and costs of those resources.

We further find that including import capability in the capacity deficiency determination does not violate the Company's QF purchase obligation and does not discriminate against QFs. Staff Comments at 5, *citing* 18 C.F.R. § 292.303(a). Rather, it recognizes utilization of the utility's existing resources that would be used to meet the Company's capacity needs prior to bringing on any new resource—without regard to whether it is QF or utility generation. If a utility possesses available transmission capacity, it is clearly capacity surplus. Consequently, capacity is not being avoided through the purchase of QF power. Consistent with our findings and conclusions in Order No. 32697, a QF is only entitled to capacity payments when the utility becomes capacity deficient. Rocky Mountain would not build a new generation resource in 2015 but for QF generation. The Company would utilize its available transmission capacity to meet its customers' needs.

Rocky Mountain's import capability must be considered as part of its overall capacity balance. Avoided cost calculated without considering the Company's import capability would fail to recognize the entirety of the Company's available capacity resources. If capacity payments are made prior to the utility becoming capacity deficient then the avoided cost rates would exceed Rocky Mountain's "incremental cost" of obtaining "alternative electric energy." 16 U.S.C. § 824a-3(b). We find that including, rather than excluding, Rocky Mountain's import capability in the capacity deficit determination comports with the "incremental cost" mandate in PURPA. By including import capability, avoided cost rates appropriately recognize the Company's mix of available resources. And importantly, including import capability ensures that avoided cost rates do not favor QFs at the expense of Rocky Mountain's ratepayers, who ultimately bear the costs. *See* Order No. 33419 at 6 (avoided cost rate overestimations "subsidize [QFs] at the expense of . . . ratepayers") (citations omitted).

For these reasons, we approve Rocky Mountain's proposed first capacity deficiency of summer 2025, to be used in its SAR-based avoided cost determinations.

ORDER

IT IS HEREBY ORDERED that PacifiCorp's Application is approved. The Company's capacity deficiency period for use in SAR-based avoided cost calculations shall be summer 2025.

IT IS FURTHER ORDERED that Commission Staff submit an updated SAR model and SAR-based avoided cost rates in accordance with this Order.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

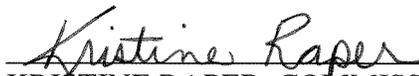
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 4th day of December 2015.



PAUL KJELLANDER, PRESIDENT



MARSHA SMITH, COMMISSIONER



KRISTINE RAPER, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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