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Attorney for the Commission Staff

## BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF )	
ROCKY MOUNTAIN POWER TO UPDATE )	CASE NO. PAC-E-18-09
THE LOAD AND GAS FORECASTS USED IN )	
THE INTEGRATED RESOURCE PLAN )	COMMENTS OF THE
AVOIDED COST MODEL )	COMMISSION STAFF
_____ )	

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

### BACKGROUND

On October 15, 2018, Rocky Mountain Power, a division of PacifiCorp, 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, Rocky Mountain 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. Rocky Mountain Power asks the Commission to issue an Order approving the updated information for inclusion in the Company's QF IRP avoided cost calculations with an October 15, 2018, effective date.

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

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 QFs<sup>1</sup> 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 variables in Rocky Mountain Power’s QF IRP method 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 QF 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, Rocky Mountain Power updates its load forecast, natural gas price forecast, and contract information. The Company explains that if the Commission approves the updates, the Company will incorporate them into its QF IRP avoided cost model and use the model to begin negotiating contractual avoided cost rates as of October 15, 2018. Application at 2.

Rocky Mountain Power’s updated load forecast is from July 2018 and “shows a slight increase in load compared to the July 2017 load forecast provided in Case No. PAC-E-17-13 and approved by the Commission in Order No. 33952.” *Id.* Rocky Mountain Power provides both the July 2018 and the July 2017 load forecasts for years 2018 through 2038. *Id.* at 4.

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<sup>1</sup> *See* Order No. 33785 (regarding battery storage facilities).

Rocky Mountain Power's updated natural gas price forecast was prepared on September 28, 2018, and "indicates gas prices [in the Company's most recent Official Forward Price Curve] are down slightly initially then a little higher over the remaining years compared to" its 2017 Official Forward Price Curve. *Id.* at 3. Rocky Mountain Power provided both its 2018 and the 2017 forecasts for years 2018 through 2037. *Id.* at 5.

Regarding contract additions and terminations, Rocky Mountain Power explains that it has signed 16 long-term contracts, eight of which are with QFs, for a total nameplate capacity of 535.3 megawatts (MW). *Id.* at 3. Eleven long-term contracts have expired and two were terminated, for a total nameplate capacity of 201.1 MW. *Id.* The Company provides a list of the contract additions and terminations in Table 3 to the Application. The Company indicates it continuously includes new power purchase agreements, terminated or expired contracts, and new contract pricing in its avoided cost IRP model. *Id.*

## **STAFF ANALYSIS**

Staff 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 difference between this year's forecast and last year's forecast is reasonable 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 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. PAC-E-17-13 and finds the new forecast is reasonable based on the comparison. The economic conditions in Rocky Mountain Power's service territory have not significantly changed in the past year, and the analysis shows a slight increase in load in the proposed forecast load. Specifically, the comparison shows the Company's 2018 forecast exceeds the 2017 forecast by 3.7%. The is due to the following: (1) increases in industrial usage in Washington, Oregon, Idaho, and California; (2) increases in commercial usage in Utah, Oregon, Washington, and California; (3) increases in central air conditioning use in all states served by the Company except Washington and California; (4) the net effect of increases in the number of households and decreases in household size; (5) increases in the number of electric



vehicles (1.6% of the customers currently own an electric vehicle); and (6) increases in the number of customers with indoor agricultural equipment.

Staff believes the new forecast is reasonable and acceptable and that the increase in load from last year should not result in any significant change in QF IRP-based avoided cost rates.

### Natural Gas Price Forecast

Staff believes that the Company's natural gas price forecast for Henry Hub is reasonable for purposes of determining avoided cost in IRP-based PURPA contracts. Staff's conclusion is based on two types of analysis: a comparison of the Company's proposed price forecast to last year's forecast in Case No. PAC-E-17-13 and a comparison of the Company's forecast to EIA's natural gas price forecasts and to Idaho's other two regulated electric utility price forecasts.

The comparison between the 2018 Henry Hub price forecast and the 2017 price forecast showed annual differences that range from -7.04% to 23.23% from years 2019 through 2037 which are illustrated in Figure 1. Staff believes this range is acceptable given the differences that often exist between reasonable forecast scenarios.

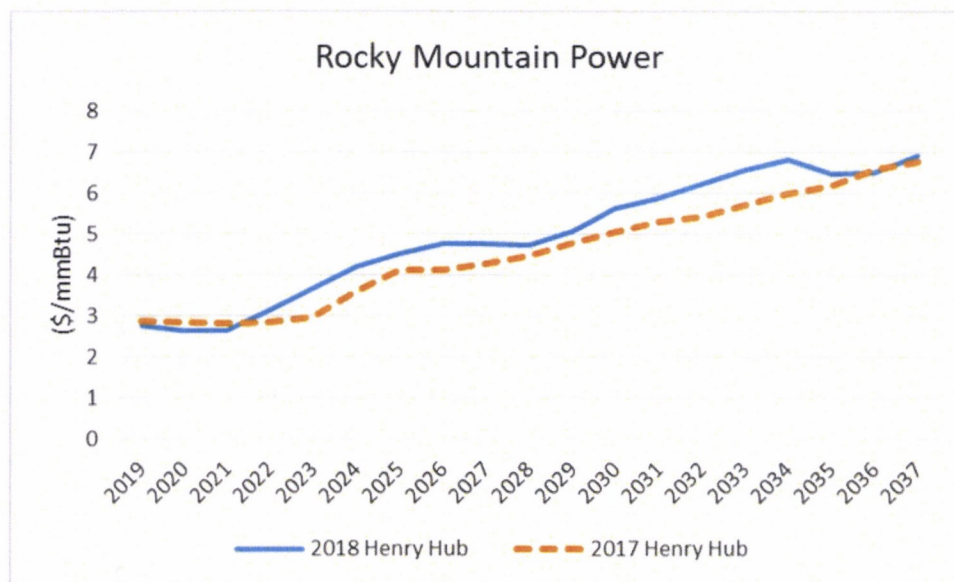


Figure 1 Rocky Mountain Power's 2018 Forecast and 2017 Forecast for Henry Hub Prices

Staff also compared Rocky Mountain Power's Henry Hub price forecast to Idaho Power's, Avista's, and two of the U.S. Energy Information Administration (EIA)'s Henry Hub price forecasts (see Figure 2). Although all the price forecasts reflect a similar trend and show

natural gas prices at Henry Hub increasing over time, it correlates heavily with Avista's natural gas price forecast, which uses futures market pricing during the first two to three years. This is important because IRP-based PURPA contracts are capped at a two-year contract length, and the avoided costs in any new contract will reflect this early pricing. In this case, futures market prices reflect continued strong natural gas market fundamentals with low near-term natural gas prices, which Staff finds reasonable.

As a result of this analysis, Staff believes the Company's natural gas price forecast is reasonable and acceptable for use in the QF IRP avoided cost rate calculation.

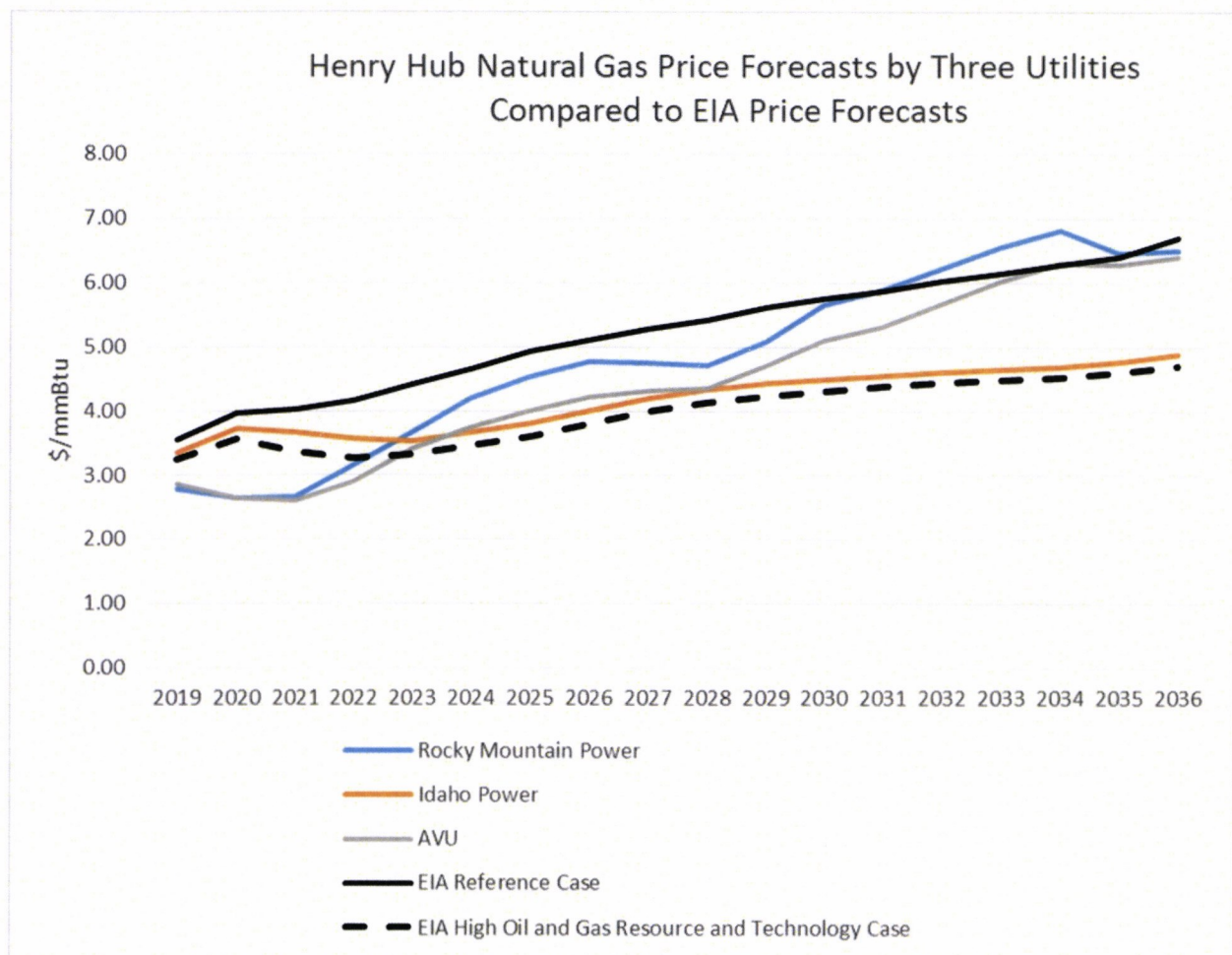


Figure 2 Comparing Three Utilities' Henry Hub Price Forecasts to EIA's Henry Hub Price Forecasts

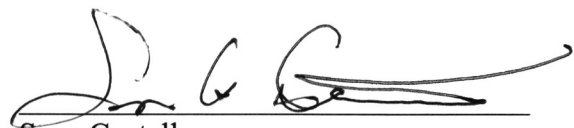
## **Contract Terminations, Expirations, and Additions**

Staff has verified the contract information contained in the Company's Application and finds it accurate. Since filing Case No. PAC-E-17-13, the Company has signed 16 long-term contracts, including eight long-term contracts with qualifying facilities, for a total nameplate capacity of 535.3 megawatts. Eleven long-term contracts have expired and two long-term contracts were terminated, for a total nameplate capacity of 201.1 megawatts. New contracts, terminated, or expired contracts, as well as new contract pricing are all included in the IRP model on a continuous basis.

## **STAFF RECOMMENDATIONS**

Staff believes the load forecast, the natural gas price forecast, and the contract information submitted by Rocky Mountain 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 *27<sup>th</sup>* day of November 2018.

  
Sean Costello  
Deputy Attorney General

Technical Staff: Yao Yin  
Bentley Erdwurm

[i:umisc/comments/pace18.9scyybe comments](#)



## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 27<sup>TH</sup> DAY OF NOVEMBER 2018, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. PAC-E-18-09, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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