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December 18, 2014

VIA ELECTRONIC AND U.S. MAIL

PUC Filing Center
Public Utility Commission of Oregon
PO Box 1088
Salem, OR 97308-1088

Re: UM 1610 – In the Matter of OREGON PUBLIC UTILITY COMMISSION, Investigation into Qualifying Facility Contracting and Pricing

Attention Filing Center:

Enclosed for filing in docket UM 1610 is an original and five copies of Idaho Power Company's Post-Hearing Brief Regarding Solar Capacity Contribution.

A copy of this filing has been served on all parties to this proceeding as indicated on the attached certificate of service.

Please contact this office with any questions.

Very truly yours,

Wendy McIndoo

Wendy McIndoo
Office Manager

Enclosures

cc: Service List

BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM 1610
PHASE II
SOLAR CAPACITY CONTRIBUTION

In the Matter of PUBLIC UTILITY COMMISSION OF OREGON, Investigation into Qualifying Facility Contracting and Pricing.	**IDAHO POWER COMPANY'S POST-HEARING BRIEF REGARDING SOLAR CAPACITY CONTRIBUTION**

Idaho Power Company ("Idaho Power") respectfully submits this Post-Hearing Brief in accordance with the November 25, 2014, Administrative Law Judge Ruling issued in this matter. Idaho Power recommends that no change is necessary to the current method of determining the capacity component of avoided cost rates, as that method was modified by Order No. 14-058. The parties' proposed changes to the capacity contribution calculation directed by Order No. 14-058 result in avoided cost rates for Idaho Power that ***exceed*** the full avoided cost rate for the proxy resource. Thus, the parties' proposed changes are contrary to the Public Utility Regulatory Policies Act of 1978 ("PURPA") and should be denied.

I. ORDER NO. 14-058

With Order No. 14-058 the Public Utility Commission of Oregon ("Commission") modified the traditional avoided cost proxy methodology, and its previous allocation of 100 percent capacity contribution to all proposed Qualifying Facility ("QF") resource types, to more appropriately reflect the actual capacity contribution of wind and solar QFs. Commission Staff's ("Staff") and the other non-utility intervenors' proposed changes to the capacity contribution directed by the Commission in Order No. 14-058 result in avoided cost rates for Idaho Power that ***exceed*** the full avoided cost rate for the proxy resource.

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This is contrary to PURPA and should be denied. It is legally acceptable for rates for purchases from a QF be less than the utility's avoided cost however, it is not legally acceptable for the rates for purchases from a QF to ever exceed the utility's avoided cost. PURPA requires: "Rates for purchases shall: (i) Be just and reasonable to the electric consumer of the electric utility and in the public interest; and (ii) Not discriminate against qualifying cogeneration and small power production facilities." 18 CFR § 292.305(a)(1). "Nothing in this subpart requires any electric utility to pay more than the avoided costs for purchases." 18 CFR § 292.305(a)(2). However, PURPA also provides: "A rate for purchases ... may be less than the avoided cost if the State regulatory authority ... determines that a lower rate is consistent with paragraph (a) of this section, and is sufficient to encourage cogeneration and small power production." 18 CFR § 292.305(a)(3).

In the final order from Phase I of this docket, the Commission directed a modification to standard and standard renewable avoided cost rates to reflect the capacity contribution of wind and solar QF resources. The Commission stated: "We modify the current methodology for calculating standard avoided cost prices and standard renewable avoided cost prices to account for the capacity contribution of different QF resources and wind integration costs." Order No. 14-058, p. 2. The Commission provided additional guidance on page 15 of Order No. 14-058, under the heading "Capacity Contribution of QF Resources." The Commission differentiates between the Standard Method and the Standard Renewable Method and directed different adjustments to each methodology to arrive at the standard avoided cost prices and standard renewable avoided cost prices. The Commission states:

> Currently, no adjustments are made to Standard and Standard Renewable avoided cost prices to account for the actual contribution to capacity made by each QF resource type. To produce more accurate avoided cost estimates, parties propose adjusting the capacity component in standard and renewable avoided cost prices to capture the expected capacity contribution of each QF resource type. For the

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> Standard Method, Staff proposes multiplying the capacity component currently embedded in the method by a "capacity contribution factor," equal to the expected contribution to peak load of the specific QF resource type. The assumed capacity contribution to peak load would be the contribution estimate used in the utility's acknowledged IRP for the specific type of generation (wind, solar, etc.).
>
> For the Standard Renewable Method, Staff proposes adjusting the capacity component implicit in the renewable on-peak price by the incremental capacity contribution of the specific QF resource type relative to the avoided renewable resource . . . .
>
> We agree on the need to adjust for capacity contribution of each resource type and adopt Staff's proposed method for calculating capacity adjustments, as set forth in Staff/102-103, using input estimates derived from the utility's acknowledged IRP. We direct the parties to address issues regarding calculation methodology in future utility IRPs.

Order No. 14-058, p. 15.

The context in which the Commission issued this decision is important to keep in mind. The above decision and direction from the Commission went along with the Commission's rejection of the utilities' proposals to reduce the standard rate eligibility cap, and thus to make applicable on a wider basis the negotiated avoided cost rate methodology. The Commission instead determined to leave standard rates available to all projects up to 10 megawatts. In so doing, the Commission also determined that to more accurately reflect a utility's true avoided cost, the capacity component in standard rates would be adjusted to capture the expected capacity contribution of each QF resource type. For Idaho Power, this means that rather than a solar QF receiving 100 percent of the capacity contribution of a combined cycle combustion turbine (the proxy resource) it instead receives a lower capacity payment commensurate with its 32 percent contribution to peak. However, as discussed further below, Staff/Intervenors' proposed modification to the capacity calculation from Order No. 14-058 as applied to Idaho Power actually ***increases***

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the avoided cost of capacity rate rather than recognizing the ***decreased*** contribution to peak as directed by Order No. 14-058.

II. APPLICABILITY OF SOLAR CAPACITY CONTRIBUTION TO IDAHO POWER

Although the present proceeding was initially, and purportedly still is, limited to addressing the solar capacity contribution component of avoided cost rates as it applies to the Standard *Renewable* avoided cost rates only, two significant changes have occurred that make clear the intent to apply, or seek to apply, such changes to all avoided cost rates, both Standard and Standard Renewable avoided cost rates.

In the Commission's Order No. 14-278, which approved Idaho Power's Replacement Compliance Filing for Avoided Cost Rates (Schedule 85) and Standard Contracts in compliance with Order No. 14-058, the adopted Staff Report references the non-applicability of the capacity contribution adjustment calculation for solar resources under the Standard Renewable Rate to Idaho Power. Order No. 14-278, Appendix A, p. 2, July 22, 2014. However, subsequent to that Order, it was made clear that: (1) Staff and the non-utility parties intend the adjustments they propose for capacity in the Standard Renewable rates to equally apply to the Standard rates and (2) the adjustments they propose do not have anything to do with the difference in the capacity contribution calculation between Standard and Standard Renewable rates directed by the Commission in Order No. 14-058.

In other words, the Commission directed that for Standard rates, the capacity component currently embedded in the method (the capacity component of the combustion turbine proxy resource) be multiplied by the capacity contribution factor equal to the expected contribution to peak load of the specific QF resource type. This is what Idaho Power has done in its approved avoided costs rates in compliance with Order No. 14-058. Because the Standard Renewable rates use a wind proxy, rather than a combustion turbine proxy, the Commission directed that for Standard Renewable rates that the capacity

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component currently embedded in the Renewable method (the capacity component of a wind resource) be adjusted by the incremental capacity contribution of the specific QF resource type relative to the avoided renewable resource. However, the non-utility parties' proposed modification to Order No. 14-058 does not address the above-stated difference between Standard and Standard Renewable capacity calculations, and instead addresses the capacity component as an entitlement of the QF to a lump-sum recovery of capacity, rather than recovery of capacity based upon deliveries during heavy load hours.

The objections raised, and the solutions proposed, by Obsidian Renewables, LLC, Staff, and the Oregon Department of Energy are really not about the Renewable avoided cost capacity component, and nothing in the objections/proposed solutions are specific to the Renewable methodology. The objections and proposed solutions are really an objection to the overall method by which the capacity component of avoided cost rates is paid to a QF. As applied to Standard rates, the focus of the other parties' proposals seeks to determine an annual lump sum of entitled capacity payments and to flow that entire amount through to the QF, rather than focusing on the Commission's direction in Order No. 14-058—to reduce the capacity payment to reflect wind and solar's reduced contribution to peak as compared to the proxy resource—or in other words, to no longer pay intermittent and variable resources such as wind and solar at 100 percent of the avoided capacity contribution of a combustion turbine, but to pay wind and solar at a reduced portion of the proxy resource's capacity contribution based upon wind and solar's contribution to peak.

III. STAFF AND INTERVENORS' PROPOSAL, AS APPLIED TO IDAHO POWER, RESULTS IN RATES THAT EXCEED AVOIDED COSTS, ARE HARMFUL TO UTILITY CUSTOMERS, AND IS UNLAWFUL UNDER PURPA

As set forth in the testimony of Idaho Power's witness, Michael J. Youngblood, Staff's proposed modification is harmful to customers because it ***increases*** the avoided cost of capacity rate rather than recognizing the ***decreased*** contribution to peak as directed

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by Order No. 14-058. Idaho Power/700, Youngblood/11-12. Prior to Order No. 14-058, a QF was compensated for capacity by receiving 100 percent of the capacity cost of the proxy for any deliveries that it would make during heavy load hours. The only change to the approach directed by the Commission in Order No. 14-058 was to compensate the QF not at 100 percent of the proxy's capacity cost, but at a reduced value commensurate with the solar QF's contribution to peak. The Commission did not direct that the rate be increased because of the fact that the QF may not make deliveries during all heavy load hours. This fact is irrelevant to the determination, and to the change directed by the Commission. Prior to Order No. 14-058, the QF was compensated with 100 percent of the proxy value for all of its heavy load hour deliveries. Subsequent to Order No. 14-058, the QF should be compensated with 32 percent of the proxy value for all of its heavy load hour deliveries. Staff proposes to inflate the capacity component of the rate that was based upon the proxy's value over all heavy load hours and compress that value into a smaller number of hours representing only the hours the solar QF delivers during heavy load. Thus the QF, under Staff's proposal, is paid a rate that far exceeds 32 percent of the proxy value, which was directed by the Commission.

In fact, using the numbers from Idaho Power's Schedule 85, and inputs from Idaho Power's 2013 Integrated Resource Plan ("IRP"), in Staff and ODOE's proposed methodology, the solar QF capacity rate actually exceeds the 100 percent proxy value capacity rate for a baseload resource. This not only is contrary to the intent and direction of Order No. 14-058, but also results in an unlawful rate that exceeds the Company's avoided cost—as it exceeds 100 percent of the proxy avoided resource value. (Currently approved solar capacity adder, Schedule 85 = $4.36; currently approved baseload capacity adder, Schedule 85 = $13.62; proposed Staff/ODOE solar capacity adder = $18.16). Idaho Power/700, Youngblood/12 (providing calculations).

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IV. CONCLUSION

No change is necessary to the current method of determining the capacity component of avoided cost rates, as that method was modified by Order No. 14-058. The parties' proposed changes to the capacity contribution calculation directed by Order No. 14-058 result in avoided cost rates for Idaho Power that ***exceed*** the full avoided cost rate for the proxy resource. This result is contrary to PURPA and should be denied. The parties' proposed modification is harmful to customers because it ***increases*** the avoided cost of capacity rate rather than recognizing the ***decreased*** contribution to peak as directed by Order No. 14-058. Idaho Power's Schedule 85 currently implements Order No. 14-058 properly by allocating a capacity payment to solar and wind QFs based upon a reduction from 100 percent of the capacity cost of proxy resource to each resource's contribution to peak from the acknowledged IRP, as directed in Order No. 14-058. This method should be affirmed by the Commission in this proceeding, and Staff's/Intervenors' proposals rejected as requiring payment in excess of avoided costs in violation of PURPA.

DATED: December 18, 2014.

IDAHO POWER COMPANY

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CERTIFICATE OF SERVICE

I hereby certify that I served a true and correct copy of the foregoing document in Docket UM 1610 the following named person(s) on the date indicated below by email addressed to said person(s) at his or her last-known address(es) indicated below.

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