

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

**UM 2000**

In the Matter of

PUBLIC UTILITY COMMISSION OF  
OREGON,

Investigation into PURPA Implementation.

**IDAHO POWER COMPANY'S  
COMMENTS ON STAFF AVOIDED COST  
STRAW PROPOSAL**

**I. INTRODUCTION**

1           In accordance with Staff's February 23, 2024, Phase 1 Schedule Update  
2           Announcement, Idaho Power Company ("Idaho Power" or "Company") respectfully submits the  
3           following comments addressing Staff's Phase 1 Proposal ("Straw Proposal") for modifying the  
4           methodology used to calculate standard avoided cost prices for qualifying facilities ("QF") under  
5           the Public Utility Regulatory Policies Act of 1978 ("PURPA"). Idaho Power appreciates the  
6           opportunity to submit these comments and looks forward to further discussion at the May 23,  
7           2024, workshop.

8           In these comments, Idaho Power first discusses its recommendation to use the  
9           incremental cost Integrated Resource Plan ("ICIRP") avoided cost methodology to determine  
10          Idaho Power's standard avoided cost prices in Oregon. The Public Utility Commission of  
11          Oregon ("Commission") has approved the ICIRP methodology for Idaho Power's non-standard  
12          avoided cost prices and the methodology can be easily adapted to calculate standard prices as  
13          well. The ICIRP methodology has many advantages over the Straw Proposal because it uses  
14          state-of-the-art production cost modeling to more accurately determine the costs that are  
15          avoided as a result of a QF transaction. Idaho Power's unique circumstances, including the fact  
16          that it is exempt from the Clean Energy Plan requirements established in House Bill 2021 ("HB  
17          2021), warrant an avoided cost methodology tailored to its system and needs.

1 After discussing its recommended methodology, Idaho Power offers comments and  
2 recommendations on Staff's Straw Proposal.

## II. COMMENTS

### A. Idaho Power's Proposal

#### 1. The ICIRP methodology more accurately calculates standard avoided cost prices.

3 The ICIRP methodology was designed to faithfully implement the legal definition of  
4 avoided cost. PURPA, the Federal Energy Regulatory Commission's ("FERC") regulations, and  
5 Oregon law all state the price paid to a QF cannot exceed the costs the utility would incur to  
6 either generate the equivalent power itself or purchase from another source.<sup>1</sup> To determine the  
7 hourly avoided costs, the Company performs an AURORA analysis using the most recently  
8 acknowledged IRP data (e.g., operational constraints and natural gas, energy, and load  
9 forecasts, etc.) to determine the generation resources being used to meet the expected hourly  
10 energy loads for each hour of the QF contract term. In AURORA, generation resources are  
11 economically dispatched based upon the incremental cost of each resource. This information is  
12 then processed through a pricing model that identifies for every hour of the proposed contract  
13 term the incremental cost(s) (highest incremental cost resources being displaced first) of each

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<sup>1</sup> 16 U.S.C. § 824a-3(b) (prohibits utilities from paying "a rate which exceeds the incremental cost to the electric utility of alternative electric energy."); 16 U.S.C. § 824a-3(d) (defines "incremental cost of alternative electric energy" as "the cost to the electric utility of the electric energy which, but for the purchase from such [QF], such utility would generate or purchase from another source."); 18 CFR § 292.101(b)(6) ("avoided cost" defined as "the incremental costs to an electric utility of electric energy or capacity or both which, but for the purchase from the qualifying facility or qualifying facilities, such utility would generate itself or purchase from another source."); ORS 758.525(2) ("An electric utility shall offer to purchase energy or energy and capacity whether delivered directly or indirectly from a qualifying facility. Except as provided in subsection (3) of this section, the price for such a purchase shall not be less than the utility's avoided costs."); ORS 758.505(1) ("'Avoided cost' means the incremental cost to an electric utility of electric energy or energy and capacity that the utility would generate itself or purchase from another source but for the purchase from a qualifying facility.").

1 displaceable generation resource<sup>2</sup> for each hour that the proposed QF project is generating.  
2 The result is a time series of hourly prices that are then multiplied by the estimated QF energy  
3 deliveries in each hour, summed together into heavy load (“HL”) and light load (“LL”) total  
4 energy costs for each month, then divided by the total HL and LL energy deliveries for each  
5 respective month creating a monthly HL and LL avoided cost of energy.

6 Like the avoided cost of energy, the avoided cost of capacity is determined through the  
7 ICIRP methodology and using the hourly forecasted generation profile of the representative QF  
8 to determine the QF-specific capacity contribution and corresponding price. The currently  
9 approved calculation of the avoided cost of capacity using the ICIRP methodology is based on a  
10 combination of inputs from the IRP and the generation profile provided by the QF. Capacity  
11 value is paid to the QF for each kilowatt-hour (“kWh”) the project delivers to Idaho Power for all  
12 months after Idaho Power’s capacity deficiency period has occurred.

13 For purposes of standard prices, Idaho Power proposes using a representative  
14 generation profile for each type of QF (e.g., solar generation profile, solar and storage  
15 generation profile, wind generation profile, hydro generation profile, etc.) to establish a standard  
16 price for each type of QF. Given the flexibility in the model, this can easily accommodate  
17 multiple resource-specific standard avoided cost prices.

18 While Idaho Power intends to present its proposed methodology in greater detail in  
19 testimony, the record in Idaho Public Utilities Commission (“IPUC”) Case No. GNR-E-11-03  
20 provides a detailed explanation of the methodology.<sup>3</sup>

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<sup>2</sup> Displaceable resources have been identified as being a resource that is on-line and capable of staying on-line and reducing its output. Potential displaceable resources include: 1) Company-owned thermal resources (Bridger, Boardman, Valmy, Langley Gulch, and the gas-fired peakers) that are on-line and operating at or above their minimum load level, (2) long-term firm purchases, and (3) market purchases as determined by AURORA. If a long-term firm purchase or market purchase is determined to be the displaceable resource in a given hour, the incremental cost is set to be the market clearing price as determined by the AURORA model on an hour-to-hour basis.

<sup>3</sup> The full record can be found here: <https://puc.idaho.gov/Case/Details/2521>.

## 2. The ICIRP methodology is reasonable for Idaho Power.

1 Approving the ICIRP methodology for Idaho Power is reasonable for several reasons.  
2 First, it directly implements the statutory definition of avoided costs by determining the cost in  
3 each hour that Idaho Power avoids either by generating less or not purchasing from another  
4 source.

5 Second, by using the sophisticated AURORA production cost model and a typical  
6 generation profile for each type of QF resource, the ICIRP methodology produces a more  
7 accurate avoided cost price using the best available inputs and modeling. AURORA is used for  
8 the IRP and to set retail power cost rates. It is well understood by Oregon stakeholders given  
9 its widespread use and is generally recognized as an industry leading production cost model.

10 Third, this methodology is currently used in Oregon for negotiated avoided cost prices<sup>4</sup>  
11 and has been approved by the IPUC for calculating the Company's Idaho avoided cost prices  
12 for solar and storage QFs above 100 kilowatts.<sup>5</sup> And since implementing the ICIRP  
13 methodology for non-standard prices, the Company executed two solar non-standard QF power  
14 purchase agreements using pricing developed from the ICIRP methodology.

15 Fourth, approving a methodology unique to Idaho Power is reasonable given that it is  
16 differently situated than both PacifiCorp and Portland General Electric ("PGE"). Unlike PGE and  
17 PacifiCorp, Idaho Power's Oregon service area is very small, only about 5 percent of its total  
18 load. Idaho Power is also not subject to or exempt from the same statutory constraints and  
19 requirements that apply to PGE and PacifiCorp, like HB 2021, and that drive many of the  
20 elements included in Staff's Straw Proposal.

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<sup>4</sup> See *In re Pub. Util. Comm'n of Or., Investigation into Qualifying Facility Contracting and Pricing*, Docket No. UM 1610, Order No. 16-174 (May 13, 2016).

<sup>5</sup> *In re Idaho Power's Petition to Determine the Project Eligibility Cap for Published Avoided Cost Rates and the Appropriate Contract Length for Energy Storage Qualifying Facilities*, IPUC Case No. IPC-E-20-02, IPUC Order No. 34794 (Oct. 2, 2020). The full record can be found here: <https://puc.idaho.gov/Case/Details/6427>. While Idaho does not have a solar-plus-storage avoided cost rate, it does have a separate avoided cost rate for storage QFs.

## **B. Idaho Power's Comments on Staff's Straw Proposal**

1           These comments reflect Idaho Power's initial assessment of Staff's Straw Proposal. The  
2 fact that the Company does not comment on a specific element of Staff's proposal should not be  
3 interpreted as Idaho Power's agreement, and the Company reserves the right to take additional  
4 positions on items that are not specifically addressed here as this docket moves forward.

### **1. Standard Price Streams.**

#### **a. The eligibility cap for standard avoided cost prices should remain at 3 megawatts ("MW") for solar QFs.**

5           Staff recommends increasing the standard avoided cost eligibility cap to 10 MW for all  
6 resources due to the "ongoing non-emitting resource procurement and Staff's proposed  
7 modifications to the capacity valuation method," which Staff believes makes the "risk of stale  
8 pricing through the use of standard avoided cost rates . . . less relevant."<sup>6</sup> Idaho Power  
9 disagrees and recommends that the Commission affirm the current thresholds for standard  
10 prices.

11           First, the concern over stale avoided cost pricing exists because standard prices are  
12 infrequently updated.<sup>7</sup> Staff's Straw Proposal, however, does not include more frequent  
13 updates. Without more frequent updates, it is unclear how ongoing competitive resource  
14 procurements and Staff's capacity valuation methodology produce more up-to-date prices.

15           Second, Staff's recommendation does not account for the primary benefit of non-  
16 standard avoided cost prices—the increased accuracy resulting from a price stream that is  
17 based on updated inputs and the specific characteristic of the proposed QF. As discussed  
18 above, the ICIRP methodology used for non-standard prices in Oregon produces a more  
19 accurate avoided cost price that would be lost if all solar QFs up to 10 MW are eligible for the  
20 inherently less accurate standard avoided cost methodology. That said, if the Commission

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<sup>6</sup> Straw Proposal at 2.

<sup>7</sup> Standard prices are updated annually on May 1 and after acknowledgement of a utility's IRP.

1 approves Idaho Power’s request to use the ICIRP methodology for standard prices, then the  
2 eligibility cap becomes less important because Idaho Power would use the same methodology  
3 for both standard and non-standard prices.

## 2. Capacity Valuation

### a. The Commission should retain the existing sufficiency/deficiency framework.

4 Staff recommends doing away with the sufficiency/deficiency demarcation and replacing  
5 it with a fixed ramp-in “to reflect the expected ongoing procurement of non-emitting resources,  
6 while acknowledging that the driver of the procurement is not an energy or capacity shortage.”<sup>8</sup>  
7 Idaho Power opposes Staff’s recommendation and supports the ongoing use of the  
8 sufficiency/deficiency demarcation.

9 First, Idaho Power’s ongoing procurement activities, reflected in its 2026 and 2028 All-  
10 Source Request for Proposals, have been driven exclusively by energy and capacity shortages.  
11 Therefore, Staff’s rationale does not appear to apply to Idaho Power.

12 Second, while it is true that Idaho Power is currently in an ongoing procurement process,  
13 that will not always be the case. If the Commission wants the methodology adopted here to be  
14 durable, it must do more than just enshrine current conditions into a methodology that will be  
15 applied even after conditions change. The sufficiency/deficiency framework appropriately looks  
16 at Idaho Power’s most recent IRP to determine when the next planned resource will be procured  
17 to meet a capacity need. In times when procurements are imminent and ongoing, Staff’s  
18 recommendation may be appropriate. But when conditions change, and Idaho Power is  
19 resource sufficient—as it was for nearly a decade—the sufficiency/deficiency methodology  
20 would appropriately reflect that change without requiring another Commission docket to update  
21 the avoided cost methodology.

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<sup>8</sup> Straw Proposal at 2.

1 Third, requiring Idaho Power to pay a QF for capacity when the Company has no need  
2 for capacity violates PURPA.<sup>9</sup> In Order No. 872, FERC recently affirmed its long-standing  
3 precedent that PURPA does not “require that each QF receive compensation for providing  
4 capacity” because “PURPA instead focuses on the purchasing electric utility’s avoided costs  
5 and provides that [FERC] cannot require that prices charged by a QF exceed the purchasing  
6 electric utility’s avoided cost, if a purchasing electric utility has no need for additional capacity  
7 (and thus the purchasing utility’s avoided cost for capacity would be zero), the only service that  
8 QFs (and other suppliers) would need to provide that utility is energy.”<sup>10</sup>

9 Staff’s recommendation also appears internally contradictory in that it requires the  
10 utilities to pay for capacity specifically because they have no capacity shortage that needs to be  
11 filled. If Staff is correct and the utilities have no capacity need, then PURPA does not require  
12 customers to pay for capacity that is not avoided.

**b. Avoided Capacity Resource**

13 Staff recommends moving from a Simple Cycle Combustion Turbine generator (“SCCT”)  
14 to a non-emitting capacity resource, like a battery, for purposes of calculating the avoided cost  
15 of capacity. Staff explains that the proxy resource should be one that the utility is “capable of  
16 acquiring and delivering to Oregon customers.”<sup>11</sup> Staff’s language appears directed to  
17 PacifiCorp and PGE, who are subject to HB 2021 and the related constraints on using gas-  
18 generation to serve Oregon load. Because Idaho Power is not subject to the same constraints, it  
19 is not necessarily reasonable to require the use of a non-emitting resource as the proxy for  
20 determining the avoided cost of capacity. Therefore, the avoided cost of capacity proxy

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<sup>9</sup> *City of Ketchikan, Alaska*, 94 FERC ¶ 61,293 at 62,061 (2001) (“[A]voided cost rates need not include the cost for capacity in the event that the utility’s demand (or need) for capacity is zero. That is, when the demand for capacity is zero, the cost for capacity may also be zero.”).

<sup>10</sup> *Qualifying Facility Rates and Requirements Implementation Issues Under the Pub. Util. Regul. Pol’y Act of 1978*, Order No. 872, 172 FERC ¶ 61,041, P 171 (2020).

<sup>11</sup> Straw Proposal at 2.

1 resource should remain the least cost dispatchable resource as identified by the most recently  
2 filed IRP, which for Idaho Power is currently an SCCT.

### 3. Energy Valuation

3 Staff recommends using a renewable resource to determine the avoided cost of energy,  
4 which appears to be different from the proxy resource used to determine the avoided cost of  
5 capacity.<sup>12</sup> If the avoided cost of energy is calculated using a proxy resource, it should be the  
6 same proxy resource used to determine the avoided cost of capacity. However, one of the  
7 benefits of Idaho Power's ICIRP methodology, is that the avoided cost of energy is not tied to a  
8 single type of resource; rather, it is derived from an hourly model that identifies the highest cost  
9 displaceable resource that would otherwise serve customers.

### 4. Policy compliance values

#### a. Deliverability Issues

10 Staff proposes accounting for deliverability constraints in the avoided cost price by  
11 reflecting the QF's proportional share of the transmission build out included in the utility's IRP.<sup>13</sup>  
12 This proposal is extremely problematic because there is no evidence that QFs siting in Oregon  
13 will enable Idaho Power to avoid transmission investments identified in the IRP, which are  
14 typically elements of the Company's long-term transmission plan. For example, in Idaho  
15 Power's 2023 IRP, the only transmission projects identified were Boardman to Hemingway  
16 ("B2H") and Gateway West ("GWW"). B2H extends from Oregon to Idaho and was modeled as  
17 a 500 MW firm supply-side resource; due to its size and expected around-the-clock capability, it  
18 is nearly impossible to be avoided by QF projects in Oregon. GWW extends from Idaho to  
19 Wyoming (dependent on the segment), meaning no QF project in Oregon could impact the need  
20 for GWW. Both B2H and GWW were identified as necessary projects to maintain reliability in all

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<sup>12</sup> Straw Proposal at 6.

<sup>13</sup> Straw Proposal at 3.



1 areas of the Company’s system and allow for greater diversity of supply and interconnectedness  
2 with other systems. Because the Company’s long-term transmission plan is essentially  
3 unavoidable for purposes of QF pricing, if Oregon QFs are paid for transmission investments  
4 that are not avoided, Oregon customers pay for those transmission investments twice.

5 Idaho Power’s avoided cost prices already account for the avoided network upgrade  
6 costs associated with the proxy resource used to calculate the avoided cost of capacity. In this  
7 way, Idaho Power’s current and proposed methodology appropriately compensates a QF for the  
8 avoided deliverability costs. Additional, unjustified compensation will simply subsidize QFs at  
9 customer expense and in violation of PURPA’s customer indifference requirement.

**b. Ownership of Renewable Energy Certificates (“REC”)**

10 Staff recommends that Renewable Portfolio Standard (“RPS”)-eligible QFs retain their  
11 RECs and negotiate a separate sale to the utility.<sup>14</sup> This proposal is problematic because Staff  
12 recommends using potentially RPS-eligible proxy resources to calculate the avoided cost of  
13 energy and capacity. If the avoided resources would have generated RECs for the benefit of  
14 customers (either through revenue from the sale of RECs or by satisfying Idaho Power’s RPS  
15 obligation), then the QF must also provide RECs to customers. Otherwise, customers are  
16 worse off as a result of the QF transaction because they pay the same for the QF resource but  
17 do not receive the benefit of RECs generated by the QF resource.

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<sup>14</sup> Straw Proposal at 3.

### III. CONCLUSION

1 Idaho Power thanks Staff for the opportunity to submit these comments and looks  
2 forward to further discussions at the May 23, 2024, workshop.

Respectfully submitted this 15th day of May 2023.

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