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June 28, 2011

VIA ELECTRONIC AND U.S. MAIL

PUC Filing Center
Public Utility Commission of Oregon
PO Box 2148
Salem, OR 97308-2148

Re: UM 1396 – In the Matter of the Public Utility Commission of Oregon Investigation into Determination of Resource Sufficiency Pursuant to Order No. 06-538

Attention Filing Center:

Enclosed for filing in the above-referenced docket are an original and five copies of Idaho Power's Reply Comments.

A copy of this filing has been served on all parties to this proceeding as indicated on the attached certificate of service. Please contact me with any questions.

Very truly yours,

Wendy McIndoo

Wendy McIndoo
Office Manager

Enclosures
cc: Service List

CERTIFICATE OF SERVICE

I hereby certify that I served a true and correct copy of the foregoing document in Docket UM 1396 on the following named person(s) on the date indicated below by email and first-class mail addressed to said person(s) at his or her last-known address(es) indicated below.

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DATED: June 28, 2011

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BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM 1396

Phase II

In the Matter of: PUBLIC UTILITY COMMISSION OF OREGON Investigation into determination of resource sufficiency, pursuant to Order No. 06-538	**Reply Comments of Idaho Power Company**

Pursuant to Administrative Law Judge ("ALJ") Patrick Power's Prehearing Conference Memorandum, Idaho Power Company ("Idaho Power" or "Company") submits the following Reply Comments to the Public Utility Commission of Oregon ("Commission").

I. INTRODUCTION

Idaho Power requests authorization from the Commission to use the Integrated Resource Plan Methodology ("IRP methodology") to determine the avoided cost for all Qualifying Facilities ("QFs") under the Public Utility Regulatory Policies Act of 1978 ("PURPA")—including both renewable and non-renewable resources. The IRP methodology is more comprehensive than the Company's currently-authorized surrogate avoided resource ("SAR") method, is the method currently employed by the Company to calculate avoided costs for large QFs (greater than 10 MW) in Oregon, and is consistent with the Company's proposal before the Idaho Public Utilities Commission ("IPUC") as well as a recent decision from the IPUC for determining avoided costs in Idaho. The IRP methodology is also consistent with the Commission's policy with respect to the ownership of renewable energy credits ("RECs") generated by QFs and conceptually supported by several parties to this docket.

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Whether or not the Commission approves Idaho Power's request to use the IRP methodology, the Company specifically objects to the imposition on Idaho Power of a separate avoided cost rate for renewable resources. Recent Federal Energy Regulatory Commission ("FERC") orders hold that state regulatory authorities may adopt multi-tiered avoided costs to reflect procurement requirements mandated by state law. In Oregon, the state mandated procurement requirement is the Renewable Portfolio Standards ("RPS"), which are not applicable to Idaho Power until 2025. Because Idaho Power is not currently subject to a renewable procurement requirement, requiring the Company to develop an avoided cost rate for renewable resources is unnecessary and likely conflicts with FERC precedent.

II. DISCUSSION

A. The IRP Methodology Is Superior to the SAR-based Method in Determining Avoided Costs

In its Opening Comments, Idaho Power proposed the use of the IRP methodology as the basis for developing resource-specific avoided cost rates. The Company offers the following discussion to provide a clearer explanation of how this method works and how it accounts for different types of generators.

1. Calculating the Avoided Cost Using the IRP Methodology.

The IRP methodology considers a wide range of relevant factors and results in a rate that more accurately reflects the costs the Company avoids than does the SAR method.[1] As stated in the Company's Opening Comments, there are two components to avoided cost pricing based upon the IRP methodology: the capital or capacity costs and the energy costs.

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[1] *See* Opening Comments of Idaho Power at 3-9.

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a. Calculating the Capacity Costs Using the IRP Methodology.

The IRP methodology begins by determining the annualized fixed cost of a combined cycle combustion turbine ("CCCT") over a 30-year depreciable life. Similar to the SAR-based methodology, the IRP methodology uses a CCCT as a proxy as it represents the most likely resource of choice for utilities. Once that price is determined, the IRP methodology uses a three step process to arrive at the capacity costs.

First, the annualized capital cost of the CCCT is adjusted to reflect the capital cost that is avoided by the specific PURPA project being proposed. This adjustment is made by scaling down the capital cost of the CCCT to reflect the size of the proposed PURPA project. For example, if the CCCT is a 270 MW unit and the proposed QF is a 10 MW project, the capital cost of the 270 MW CCCT would be multiplied by 3.7 percent (10/270) to arrive at the first value in determining the capital cost being avoided by the addition of the 10 MW PURPA project.

Second, the proposed QF project's specific peak-hour capacity factor is determined. There is relative certainty that a CCCT generation unit, the utilities' preferred resource option, would be available to contribute 100 percent of its generation capability to Idaho Power at the time the Company experiences its highest peak loads (*e.g.* 3:00 PM to 7:00 PM in the month of July); thus, its peak-hour capacity factor is 100 percent. This is not necessarily the case for renewable generators, many of which are intermittent in nature. Due to unique operating characteristics each type of generator, *e.g.*, wind, solar, or biomass, provides different levels of certainty as to how much capacity they would be able to reliably deliver to Idaho Power during times of peak load.

For example, historical wind generation data and wind industry data demonstrates that, on average, wind generation units materially contribute to Idaho Power's peak energy needs only 5 percent of the time. Solar projects, on average, materially contribute to Idaho

Power's peak energy needs 36 percent of the time.[2] A baseload biomass resource would most likely contribute to the peak energy needs close to 90 to 100 percent of the time—assuming the specific project has adequate fuel supply, operating expertise, and appropriate maintenance to ensure it can be available at full output during Idaho Power's peak load energy times. Small, run-of-the-river hydro resources are unlikely to be available 100 percent of the time at the peak load time due to the uncertainty of river flows. Canal-drop hydro projects, on the other hand, may likely be available for a higher percentage of peak load times because, historically, the canal systems run at full water levels to meet the high irrigation demands during Idaho Power's peak energy load times. Once the proposed QF project's peak load availability percentage is determined, it is then applied to the capital cost, as described above in the first step.

Third, the QF project's number of months in a calendar year in which it will be able to generate power is calculated as a percent of the entire calendar year. For example, a wind project has wind available 12 months of the year, resulting in a percentage of 100 percent. On the other hand, for a canal drop hydro project, the water is in the canal for only 7 months of the year. So it is able to generate energy during only those 7 months and the applied percentage applied is 58.3. This percentage is then applied to the result of the second step above.

Thus, a three-step process is used to determine the capital or capacity cost component of avoided costs under the IRP methodology. In addition to the capital or capacity cost, a separate process is used under the IRP methodology to determine the energy costs, as described below.

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[2] To calculate this percentage, Idaho Power collected actual generation data from the Idaho Power roof top solar facility that has been operational for 17 years.

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b. Calculating the Energy Costs Using the IRP Methodology.

The other primary component of the avoided cost calculated using the IRP methodology is the energy cost. The IRP methodology calculates an avoided energy cost based on the energy quantity and supply shape that a specific project provides. A resource's supply shape represents its hourly energy production capabilities. Generally speaking, like resources (*e.g.*, two wind resources) will have similar or identical energy supply shapes. Thus, different projects of the same resource type will have similar or identical avoided energy cost calculations produced by the IRP methodology. This is not, however, always the case. A larger project may have a different avoided energy cost because larger amounts of energy may have a different impact on electric system operations in comparison to smaller projects and smaller amounts of energy. Even for projects of similar size and resource type, the actual energy supply shape may be materially different. For example, wind resources may have significantly different time-of-day energy shapes based on their location (*e.g.*, eastern Oregon versus central Idaho).

Idaho Power uses its AURORA electric market modeling tool to determine the avoided energy cost for proposed PURPA generation resources under the IRP methodology. In short, the energy quantity and supply shape of a specific project serves as input into the AURORA model, and then the AURORA model is used to simulate the operations of the Idaho Power electric system with and without the proposed PURPA resource. The difference in cost between the two model runs is the energy cost Idaho Power is able to avoid as a result of the addition of the proposed PURPA project. The AURORA model takes into account numerous factors in determining the cost of operating the electrical system, including: wholesale market energy prices, utility owned resource availability and cost, transmission cost and constraints, and operating constraints that may contribute to cost, such as emissions and environmental constraints.

The AURORA modeling tool is widely accepted in the power industry, and the Company has used it as part of its IRP planning process for more than 20 years. This IRP process has been acknowledged by both this Commission and the IPUC. In addition, Idaho Power's Oregon P.U.C Tariff Schedule 85 states that the IPUC-approved IRP methodology, as refined by this Commission, is one of the bases on which to determine the avoided cost for QF projects larger than 10 MW. Thus, while the IRP methodology has not been used in Oregon to determine the avoided cost for small QFs, the method itself has been used as part of Idaho Power's avoided cost determinations for large QFs. And as explained in greater detail later in these comments, the IRP methodology stems from the same detailed, comprehensive analytical mechanism that this Commission has used for more than 20 years to acknowledge the biennial integrated resource plans submitted by Idaho Power.

2. The IRP Methodology Produces Appropriate Avoided Cost Rates for Power Purchased from QFs.

The Commission initially opened this docket to address an unresolved issue from Docket UM 1129: how should a utility's resource position be determined and once determined how should that resource position inform the calculation of the utility's avoided costs used to price energy from PURPA projects? When preparing its biennial IRP, Idaho Power develops a 20 year load forecast. Then, using existing resources and establishing plans for new resources, the Company puts in place a resource portfolio to satisfy its anticipated loads. In this way, the IRP process develops a long-term plan that balances the forecasted energy load with existing resources and new planned resources.

The IRP methodology proposed by Idaho Power in this docket uses the same preferred portfolio created in the biennial IRP planning cycle as the basis to establish the avoided cost. As previously discussed, the proposed avoided cost created by the IRP methodology is comprised of two components: the avoided capital cost and the avoided energy cost. The avoided energy cost developed by this methodology is a reflection of the

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resource energy costs that Idaho Power is avoiding by the addition of the proposed PURPA project. The avoided capital cost component assumes the utility is adding resources and the capital cost of that resource can be avoided by the addition of the proposed PURPA project. Realistically, in the short term, the addition of a 10 MW PURPA project is most likely not going to alter a utility's immediate plans for developing a planned large generation unit. Thus, an argument could be made that the capital cost in this instance should not be included in the avoided cost rate calculation. Over time, however, the accumulation of multiple 10 MW (or larger) PURPA projects potentially may allow a utility to avoid or delay the addition of new generation resources. Consequently, Idaho Power can accept the longer term aggregation concept and include the avoided capital cost component in the overall avoided cost calculation as part of the IRP methodology so long as Idaho Power is allowed to base this capital cost component on the capital cost of a viable least cost resource and is allowed to use the proposed IRP methodology to establish the avoided cost.

3. The IRP Methodology Does Not Use a Proxy Renewable Resource.

As explained above, the IRP methodology calculates a capital avoided cost based on a representative CCCT and establishes an avoided energy cost component based upon revised operations of the utility's preferred resource portfolio, which is a result of the addition of the specific, proposed QF resource. Because the CCCT is not a renewable energy source and currently Idaho Power is not including a specific value within the AURORA preferred portfolio for RECs, the avoided cost rate generated by the IRP methodology does not include any value that may be associated with RECs. This result is consistent with FERC policy, which has clarified that an avoided cost rate may not include a "bonus" or "adder" above a utilities' avoided cost to provide compensation for environmental attributes

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that result from a renewable QF project, unless such costs are imposed on a utility by state law.[3]

Idaho Power's proposal to use the IRP methodology is also consistent with the Commission's rules that unless otherwise agreed to between the purchasing utility and the QF project, the QF retains ownership of the RECs.[4] Accordingly, unless otherwise commercially negotiated between the purchasing utility and the QF as part of the power purchase agreement or as part of a separate understanding or agreement, a QF project that generates RECs would retain those RECs when it sells the energy and capacity to Idaho Power. While the Company does not agree with the Commission's policy regarding ownership of RECs, it recognizes that in Oregon this issue has been decided.[5] Thus, the Company's proposal to use the IRP methodology in Oregon <u>does not</u> presume that QFs will be required to cede RECs to Idaho Power as part of the PURPA transaction.

B. The Commission Should Authorize Idaho Power to Set Avoided Cost Rates Based Upon the IRP Methodology

The IRP methodology contains both capacity and energy pricing components that are a more accurate reflection of the utility's actual avoided costs than the current SAR methodology. It accounts for an avoided capital cost and avoided energy cost associated with a specific QF generator—whether the generator is a renewable one or not. The use of the IRP methodology is also consistent with the Company's position before the IPUC. Recently, the IPUC issued an order setting the published avoided cost rate cap at 100 kW

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[3] *Cal. Pub. Util. Comm'n,* Order Denying Rehearing, Docket No. EL 10-64-001, 134 F.E.R.C. 61,044, ¶ 30 (Jan. 20, 2011).

[4] OAR 860-022-0075(2)(b).

[5] Notably, the issue of which party owns RECs in a PURPA transaction, the purchasing utility or the QF generator, remains an unresolved issue in the state of Idaho.

for wind and solar QF projects.[6] Accordingly, for solar and wind projects larger than 100 kW, Idaho Power will determine avoided cost pricing pursuant to the IRP methodology. For non-wind and non-solar resources up to a size of 10 a MW, QF projects will continue to receive the SAR-based, published avoided cost rate. That said, the IPUC recently initiated another docket that will examine avoided cost pricing issues, and in that docket, the Company is seeking the use of the IRP methodology for all avoided cost calculations.[7]

Importantly, this Commission currently recognizes the use of the IRP methodology to determine avoided cost rates for larger QF projects.[8] Because the IRP methodology is an existing Commission approved methodology for setting prices for large QF projects, there should be no dispute as to the legality of using the IRP methodology for smaller QF projects. In addition, the use of the IRP methodology to set avoided cost rates is consistent with this Commission's previously articulated goal of implementing PURPA in encouraging the "economically efficient development of ... [QFs], while protecting ratepayers by ensuring that utilities pay rate equal to that which they would have incurred in lieu of purchasing QF power." *In Re Investigation Relating to Elec. Util. Purchases from QFs,* Docket No. UM 1129, Order No. 05-584 at 1. As noted by the Renewable Energy Coalition ("Coalition") in its Opening Comments, the use of the IRP methodology in the case of Idaho Power would result in a rate that is currently higher than the authorized, SAR-based, published avoided cost rate for all resource types except for wind.[9]

The principles underlying the IRP methodology also enjoy support among the parties to this docket. Several parties' comments acknowledge, at least conceptually, the value of

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[6] Case No. GNR-E-11-01, Order No. 32262.

[7] Case No. GNR-E-11-03.

[8] *See* Schedule 85.

[9] Opening Comments of Renewable Energy Coalition at 3 ("Coalition Comments").

basing renewable avoided costs on the unique characteristics of different types of renewable generation resources. For example, the Coalition cites to testimony submitted by Idaho Power in a docket before the IPUC where Idaho Power proposed to use IRP methodology to set resource-type specific avoided costs for QF projects. The Coalition concurs with Idaho Power that one renewable resource cannot fit all, "the characteristics of each type of renewable resource must be reflected in the avoided costs a utility pays each type of renewable QF."[10] As argued by the Coalition, "[u]sing wind resources as the unspoken representative of all renewable resources would severely and unfairly prejudice baseload non-wind renewable resources," noting that "the characteristics of each type of renewable resource must be reflected in the avoided costs a utility pays each type of renewable QF."[11] Idaho Power agrees with the arguments made in the Coalition's comments in part because Idaho Power does not anticipate acquiring any wind resources in the near future. Therefore, its use as a proxy for Idaho Power is problematic.

In addition, the Comments of Northwest Systems Company ("NESCO") advocate "at least two different avoided cost values: one for intermittent resources, such as wind and solar, and a separate one for base load resources such as geothermal and biomass," noting that "[b]ase load resources have costs and operating characteristics that are different from those of intermittent resources."[12] As explained above, the IRP methodology proposed by Idaho Power takes into account the operating characteristics of different types of QF resources, including the intermittent nature of some types of QF generators as well as the base load nature of other types of QF resources.

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[10] *Id.*

[11] *Id.*

[12] Comments of NESCO at 1.

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The Industrial Customers of Northwest Utilities ("ICNU") "do not oppose either an IRP or proxy resource-based approach..."[13] ICNU cautions, however, that no single renewable proxy resource may be able to accurately reflect a utilities' avoided cost and "recommends that the avoided renewable costs should be based on the costs of those renewable resources that are actually avoided..."[14] Accordingly, ICNU recommends that if the Commission uses a proxy resource-based approach that "the Commission use different proxy resources for each type of QF, including wind, biomass, hydro and solar."[15] While the IRP methodology proposed by Idaho Power is not a *per se* proxy resource-based approach, it captures the unique generation characteristics of different types of renewable generation resources and assigns value based upon that unique generation resource.

If the Commission does authorize Idaho Power to use the IRP methodology, the Company can utilize one of two approaches for determining avoided cost pricing for QF projects. The first, and preferred, approach is for Idaho Power to run each proposed QF project through its IRP methodology model. Doing so would provide a unique avoided cost for each project based upon the project's size, energy supply shape and impact that project has on Idaho Power's operations. In order to run a proposed QF project through its IRP methodology model, Idaho Power needs the proposed QF project to provide an accurate hourly energy estimate for every hour for at least a one year period, the estimated online date and the desired contract term. Most, if not all, QF project developers develop such information in the course of their due diligence regarding the financial viability of their proposed project. Thus, there would be no additional undue burden placed on the QF project developer in determining the avoided cost rate using the IRP methodology.

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[13] Opening Comments of ICNU at 9.

[14] *Id.*

[15] *Id.* at 10.

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The second approach for setting avoided cost rates based upon the IRP methodology would be to develop published representative avoided cost rates, which would be updated on a regular basis. For example, upon the filing of Idaho Power's biennial IRP with the Commission, Idaho Power could submit published avoided cost rates for representative renewable QF projects. Specifically, Idaho Power would develop IRP methodology-based pricing for a representative 10 MW QF project for each type of generation characteristic—*i.e.* wind, fixed photo-voltaic solar, canal-drop hydro, spring-fed hydro, and base-load geothermal, biomass, or anaerobic digesters.[16] These "published," representative prices would be made available to any 10 MW or less QF project of the identified representative resource type, so long as the QF project's expected generation profile was reasonably similar to the generation profile that was used in developing the published avoided cost for that specific resource type. The published, resource specific pricing could be updated each time Idaho Power submits its IRP with the Commission, annually, or at any other reasonable time as determined by the Commission, Idaho Power, or the requesting QF generators.

In adopting one of the two methods of the IRP methodology to set avoided cost pricing, the Commission should prohibit a QF project from selecting among different avoided cost streams that result. Allowing QFs to do so would violate PURPA in that certain QF projects could select an avoided cost stream based on generation characteristics that it does not possess. For example, if the IRP methodology were to yield a $54 per MW rate for a wind QF project and an $89 per MW rate for a canal-drop hydro project, the wind QF should not be able to select the canal-drop hydro rate because the wind generator will not generate power with the same characteristics as a canal-drop hydro project. Allowing the

[16] These categories of generators represent the existing types of renewable QF generators on Idaho Power's system as well as the type of renewable QF generators Idaho Power anticipates in the future. If a new technology or generator-type emerges, Idaho Power could easily develop an avoided cost rates using its IRP methodology based upon that new type of generation resource.

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wind generator in this example to select the canal-drop hydro rate would equate to allowing the wind project to receive a rate that is higher than the Company's actual avoided cost rate for a resource with that type of generation profile. Accordingly, the Commission should not allow QF projects to "pick and choose" among different avoided cost streams; instead, they should be paid a rate that most accurately reflects the utility's avoided cost for that type of generation resource.

B. Idaho Power Should Not Be Required to Develop a Renewable Avoided Cost.

Regardless of whether the Commission authorizes Idaho Power to use the IRP methodology to set avoided cost rates for QF purchases, the Company requests that it not be required to develop a separate avoided cost rate for renewable resources. First, doing so would impose significant administrative burdens on the Company because the IPUC does not require the development of a separate renewable avoided cost. Because only a small portion of Idaho Power's business is in Oregon, it would be administratively burdensome for the Company to develop a separate, renewable avoided cost stream for only the small portion of its business that exists in Oregon. The IPUC has already approved the expansion of the IRP methodology to many more QF projects and the Company is requesting that it allow its use for all avoided cost determinations.

Second, and more importantly, because Oregon's RPS does not apply to Idaho Power until 2025, the Company has no renewable procurement requirement and therefore requiring it to adopt an avoided cost based upon such a requirement violates PURPA's fundamental mandate that customers be indifferent to the acquisition of energy from QFs. One of the primary issues in this docket is how and to what extent Oregon's RPS can and should influence the determination of a utility's avoided cost. Specifically, the Commission seeks comments on the implications of FERC's conclusion that, "where a state requires a utility to procure a certain percentage of energy from generators with certain characteristics, generators with those characteristics constitute sources that are relevant to the

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determination of the utility's avoided cost for the procurement requirement."[17] This conclusion focuses on the impact of state mandated procurement requirements and FERC reiterated in its order that the avoided cost cannot include a "bonus" or "adder" for environmental externalities unless those costs are real costs the utility would otherwise incur.[18]

Importantly, FERC's recent decisions do not stand for the proposition that the avoided cost can now account for more than the cost of energy and capacity.[19] Rather the avoided cost can account for a particular type of energy and capacity that the utility would otherwise have to procure but for the purchase from the QF. Thus, if the utility is not required to purchase energy from a renewable resource, the avoided cost cannot include the value of the environmental attributes of that renewable resource.

Here, Idaho Power is not subject to Oregon's RPS requirements until 2025.[20] Therefore, until 2025 Idaho Power is not obligated "to procure a certain percentage of energy from generators with certain characteristics" and "generators with those characteristics" are irrelevant "to the determination of the utility's avoided cost for the

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[17] Order No. 10-488 at 9 (citing *Cal. Pub. Util. Comm'n,* Order Granting Clarification, Docket No. EL 10-64-001, 133 F.E.R.C. 61,059 at 13-14 (Oct. 21, 2011)).

[18] *Cal. Pub. Util. Comm'n,* Order Granting Clarification, Docket No. EL 10-64-001, 133 FERC 61,059 at 15. *See also American Ref-Fuel Company*, 107 F.E.R.C. P 61,016, 61,043-61,044 (Apr. 15, 2004).

[19] 16 U.S.C. § 824a-3 (avoided cost defined as "the cost to the electric utility of the electric energy which, but for the purchase from [the QF], such utility would generate or purchase from another source."

[20] ORS 469A.055. Notwithstanding this fact that Idaho Power is not subject to the Oregon RPS until 2025, one of Idaho Power's largest renewable energy projects, the 101 MW Elkhorn Wind Farm, is located in eastern Oregon and is providing renewable energy to Idaho Power's Oregon and Idaho retail customers. However, Idaho Power was not mandated by the RPS to enter into an agreement to develop this wind farm. That said, the RECs generated by this project provide Idaho Power with all the RECs it would need to comply with the Oregon RP in 2025.

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procurement requirement."[21] Accordingly, to the extent the Commission reaches a decision in this docket that considers renewable energy sources and/or the value of RECs for the purposes of avoided cost pricing, the Commission should exempt Idaho Power from having to comply with such requirements.

III. CONCLUSION

Idaho Power requests that the Commission authorize the Company to use the IRP methodology, set forth above and in its Opening Comments, to determine the published avoided cost rate for all small QFs. This method results in a more accurate avoided cost rate by considering the specific generation characteristics of the QF. It is also consistent with both Commission and FERC policy. The Company also requests an exemption from a requirement to develop a separate avoided cost for renewable resources because it is not subject to Oregon's RPS until 2025 and the IPUC does not require a similar multi-tiered avoided cost.

DATED: June 28, 2011.

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[21] *Cal. Pub. Util. Comm'n,* Order Granting Clarification, Docket No. EL 10-64-001, 133 F.E.R.C. 61,059 at 13-14.