

ORDER NO. 12 146

ENTERED APR 25 2012

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

UM 1590 & UM 1593

In the Matters of

IDAHO POWER COMPANY,

Application to Revise the Methodology Used to  
Determine Standard Avoided Cost Prices and  
Motion for Temporary Stay of Obligation to  
Enter into New Power Purchase Agreements  
with Qualifying Facilities. (UM 1590)

and

Request to Revise Standard Contract Avoided  
Cost Prices paid to Qualifying Facilities under  
Schedule 85. (UM 1593)

ORDER

**DISPOSITION: STAFF'S RECOMMENDATIONS ADOPTED AS MODIFIED**

At a Public Meeting on April 24, 2012, we addressed two related matters: (1) Idaho Power Company's application to revise the methodology used to determine its standard avoided-cost prices and motion for temporary stay (docket no. UM 1590); (2) and the company's filing of revised avoided-cost prices paid to qualifying facilities (docket no. UM 1593).

With respect to docket UM 1593, we adopted Staff's recommendation that the company's revised avoided-cost prices, calculated using the "Oregon method," be approved. Idaho Power's alternate Schedule 85, filed on April 20, 2012, will go into effect on April 25, 2012. Staff's recommendation is attached as Appendix A.

In its related application in docket UM 1590, Idaho Power asked that we open an investigation into the methodology used to calculate the company's avoided costs and adopt what the company calls the Integrated Resource Plan methodology. Idaho Power also sought a temporary stay on all Qualifying Facility (QF) standard contracting activity during the pendency of the investigation.

Staff recommended that we deny the request for investigation as well as the motion for temporary stay. Staff's recommendation is attached as Appendix B.

After discussion of recent issues related to QF contracting, we ordered that a generic docket be opened to investigate issues related to electric utilities' purchases from QFs, generally. Idaho Power's requested method for calculating avoided-cost prices will be an issue in the new docket.

We also denied Idaho Power's request for a stay. We clarified that any contracts entered into between Idaho Power and QFs at this time will be governed by the avoided-cost prices established in docket UM 1593 (calculated using the "Oregon method"). The prices in these contracts will not change, even if the investigation ultimately leads to adoption of a new methodology and new avoided-cost prices.

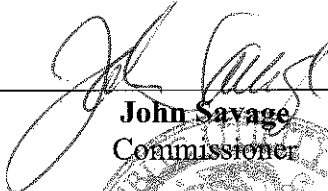
### ORDER

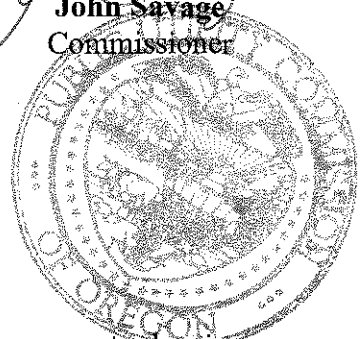
IT IS ORDERED that

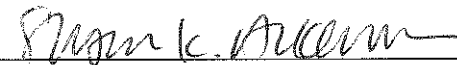
1. Idaho Power Company's application to revise the methodology used to determine its standard avoided cost prices is denied. Instead, a generic docket will be opened to investigate issues related to electric utilities' purchases from Qualifying Facilities, including Idaho Power Company's requested method for calculating avoided-cost prices.
2. Idaho Power Company's request for a temporary stay of obligation to enter into new power purchase agreements with Qualifying Facilities is denied.
3. Idaho Power Company's Alternate Schedule No. 85, filed on April 20, 2012, is approved, effective on April 25, 2012.

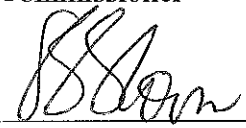
This order memorializes the decision of the Public Utility Commission of Oregon made and effective at a public meeting held on April 24, 2012.

Dated this 25<sup>th</sup> day of April, 2012, at Salem, Oregon.

  
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**John Savage**  
 Commissioner



  
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**Susan K. Ackerman**  
 Commissioner

  
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**Stephen M. Bloom**  
 Commissioner

A party may request rehearing or reconsideration of this order under ORS 756.561. A request for rehearing or reconsideration must be filed with the Commission within 60 days of the date of service of this order. The request must comply with the requirements in OAR 860-001-0720. A copy of the request must also be served on each party to the proceedings as provided in OAR 860-001-0180(2). A party may appeal this order by filing a petition for review with the Court of Appeals in compliance with ORS 183.480 through 183.484.

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: April 24, 2012

REGULAR  X  CONSENT \_\_\_\_\_ EFFECTIVE DATE  April 25, 2012

DATE: April 20, 2012  
TO: Public Utility Commission  
FROM: Adam Bless  
THROUGH: Bryan Conway and Maury Galbraith

SUBJECT: IDAHO POWER COMPANY: (Docket No. UM 1593) Revises Standard Contract Avoided Cost Prices paid to Qualifying Facilities under Schedule 85.

**STAFF RECOMMENDATION:**

Staff recommends that the Commission allow the alternate Schedule 85, filed by Idaho Power Company on April 20, 2012, to go into effect on April 25, 2012.

**DISCUSSION:**

Procedural History

On February 13, 2012, the Commission suspended Idaho Power's obligation to enter into standard contracts with Qualifying Facilities (QFs) until avoided cost prices stemming from Idaho Power's most recent Integrated Resource Plan (IRP) are established. (See Order No. 12-042.) The Commission acknowledged Idaho Power's IRP on February 14, 2012, and Idaho Power filed new avoided cost prices on March 15, 2012, thirty days after acknowledgment as required by Oregon Administrative Rule and as ordered by the Commission in Order No. 12-042 (hereinafter referred to as "the compliance filing").<sup>1</sup>

The avoided cost prices in Idaho Power's compliance filing are calculated using the Surrogate Avoided Resource (SAR) methodology approved for Idaho Power in Commission Order No. 05-584. This method bases the avoided costs on a proxy combined cycle combustion turbine (CCCT) for all years, whether the company is resource sufficient or deficient. In the SAR method, all assumptions regarding capital costs and operating characteristics are as specified by a 2009 Idaho Commission Order. (IPUC Order No. 30738.)

<sup>1</sup> Idaho Power revised this compliance filing eight days later, on March 23, 2012, to remove the April 15, 2012 effective date included in the original filing.

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At the same time it submitted its March 15, 2012 compliance filing, Idaho Power submitted an "Application to Revise the Methodology Used to Determine Standard Avoided Cost Prices" (Application). The Application included a request to open an investigation into the use of Idaho Power's proposed "IRP method," and a motion for a stay of its obligation to enter into new QF standard contracts during the investigation.<sup>2</sup>

On April 10, 2012, in response to Staff's suggestion that Idaho Power use the Commission-ordered avoided cost methodology used by Portland General Electric Company (PGE) and PacifiCorp (hereinafter referred to as "the Oregon method") to address concerns raised by the Company in its Application, Idaho Power filed an alternate schedule of avoided cost prices. Idaho Power used market prices in resource sufficient years and the SAR method for resource deficient years. However, the alternate schedule filed on April 10, 2012 is based only in part on the Oregon method because it uses the SAR method for resource deficient years as opposed to what is required by the Oregon method, which is described below.

On April 20, 2012, in response to Staff's request, Idaho Power submitted a revised alternate schedule of avoided cost prices, this time using the Oregon method to calculate avoided cost rates for resource sufficient years and resource deficient years. Idaho Power used 2016 as the first resource deficient year, based on its recently acknowledged 2011 IRP. Idaho Power's initial compliance filing and subsequent supplemental filings are docketed in Docket No. UM 1593.

#### Staff Analysis

Idaho Power submitted separate avoided cost calculations, one using the SAR method and the others using the Oregon method. For the reasons that follow, Staff recommends the Commission adopt avoided cost prices based on the Oregon method.

#### SAR Method

In its Application, Idaho Power states that the SAR method results in avoided cost prices that exceed the true avoided cost. Staff agrees. The SAR method calculates the fixed and variable costs of the proxy CCCT in all years, including resource sufficient years. In contrast, the other Oregon utilities use a market price in resource sufficient years. The SAR price is higher than market prices. For that reason, the 20-year levelized price using the SAR method was \$68.58 per MWh, versus \$62.45 per MWh using market prices until 2016 and the SAR method thereafter.

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<sup>2</sup> This Application was docketed as UM 1590 and reviewed in a companion Staff Report prepared for the Commission's regular public meeting on April 24, 2012.

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The SAR method also produces higher avoided cost prices in resource deficient years. The SAR proxy resource is a CCCT with specifications prescribed in 2009 in Idaho Public Utilities Commission Order 30378. The specifications include a higher capital cost and higher heat rate than the CCCT described in Idaho Power's 2011 IRP, resulting in higher costs than the company would incur if it acquired an actual CCCT.

Idaho Power has a higher percentage of QF power supply than the other regulated utilities in Oregon. For the period April 2012 through March 2013, Idaho Power forecasts that QF power will supply 17 percent of its total system load. This is an increase of 6 percent from the forecast for the April 2011 to March 2012 period. In comparison, PacifiCorp forecasts QF power will supply less than 5 percent of its total system load during 2013.

Idaho Power states in its supporting testimony that in 2012, its payments to QFs will exceed what it would pay on the market for that power by \$69 million (company-wide). The company has pending standard contract requests totaling an additional 73 MW (nameplate) in Oregon, of which 70 MW are wind. For the 73 MW of new QF contracts currently pending in Oregon, avoided cost payments using the SAR method in resource sufficient years will exceed the market price for that power by approximately \$6.4 million per year.

Staff is persuaded that the SAR method does result in avoided cost prices that exceed the costs the Company would avoid but for their QF obligations.<sup>3</sup>

### **Oregon Method**

Staff requested the Company's supplemental filing of April 10, 2012, to address concerns with the SAR method by switching to the Oregon method. Staff reviewed this filing and concluded that the use of the SAR proxy resource during the resource deficiency period is not consistent with Idaho Power's 2011 IRP or with the Oregon method as implemented by other Oregon utilities and approved by the Commission in Order 06-658. Therefore, Staff suggested that the Company re-file its calculation using the Oregon method throughout.

On April 20, 2012, the Company made a second supplemental filing and used the Oregon method to calculate avoided cost prices in both the resource sufficient and

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<sup>3</sup> The QF prices in the Company's compliance filing are calculated using the SAR method. Under this calculation, the 20-year levelized avoided cost price would be reduced from its current value of \$89.58 per MWh to an updated value of \$68.58 per MWh. Staff reviewed the calculation and found it consistent in all respects with the SAR method and with the calculations approved in 2010. Therefore, the avoided cost filing submitted on March 23, 2012 complies with Order 05-584.

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resource deficient years. The Company used market prices for resource sufficient years and the proxy resource that is prescribed by Commission order in resource deficient years. This proxy resource is a CCCT consistent with the one specified in the Company's most recently acknowledged IRP. (See Order No. 06-658 at 55). Staff reviewed Idaho Power's calculations and found them to comply with the Oregon method as specified in Commission orders. The 20-year levelized avoided cost price would be \$59.06 per MWh. In comparison, the SAR method levelized price would be \$68.58 per MWh and the current 20-year levelized price is \$89.58 per MWh.

The Oregon method was ordered by the Commission after a lengthy investigation in Docket No. UM 1129. In Docket No. UM 1129, the Commission concluded that "accurate calculation of avoided costs requires differentiation when a utility is in a resource sufficient position versus a resource deficient position," and ordered that PGE and PacifiCorp base avoided cost prices on market prices when the utility is in a resource sufficient position and on the variable and fixed costs of a natural-gas CCCT. (Order No. 05-584 at 26; Docket No. UM 1129.) (The Commission substituted the IRP-indicated resource as the proxy resource the following year, in Order No. 06-658.) The Commission did not require Idaho Power to adhere to the Commission-ordered methodology for calculating avoided cost prices, however, for "administrative efficiency." Instead, the Commission authorized Idaho Power to use the method used in Idaho for calculating avoided costs because the "administrative burdens to Idaho Power of developing and applying new avoided cost methodologies in Oregon outweigh the potential benefits and justify allowing Idaho Power to continue to use the SAR methodology." (Order No. 05-584 at 26; Docket UM 1129.)

In light of analysis showing that the previously-approved methodology for Idaho Power will produce avoided cost prices that exceed actual avoided cost, Staff recommends that the Commission no longer exempt Idaho Power from use of the Oregon method on grounds of administrative efficiency. The Commission previously selected the Oregon method, instead of others presented in Docket No. UM 1129, as the best method for calculating accurate avoided cost prices.

Staff knows of no reason to differentiate between Idaho Power, PacifiCorp, and PGE as to the applicability of the Oregon method. Furthermore, Staff concludes that, because of the thorough analysis previously performed in Docket UM 1129, the Oregon method can be implemented at this time without further investigation and produces avoided cost prices that accurately reflect the incremental costs that the company would incur but for the purchases from the QF resource. Accordingly, Staff recommends that the Commission allow the second alternate Schedule 85 submitted by the Company on April 20, 2012, to become effective on or after April 25, 2012.

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**PROPOSED COMMISSION MOTION:**

Idaho Power's Revised Schedule 85 Cogeneration and Small Power Production Standard Schedule Rates, as submitted in the supplemental filing of April 20, 2012, be approved and effective with service on and after April 25, 2012.

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**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: April 24, 2012**

REGULAR  CONSENT  EFFECTIVE DATE April 25, 2012

DATE: April 20, 2012

TO: Public Utility Commission

FROM: Adam Bless

THROUGH: Bryan Conway and Maury Galbraith

**SUBJECT:** IDAHO POWER COMPANY: (Docket No. UM 1590) Motion for Temporary Stay of Obligation to Enter into New Power Purchase Agreements with Qualifying Facilities and Application to Revise the Methodology Used to Determine Standard Avoided Cost Prices.

**STAFF RECOMMENDATION:**

Staff recommends that the Commission deny Idaho Power Company's Application and deny the Request for Temporary Stay.

**DISCUSSION:**

Procedural History

On March 15, 2012, Idaho Power submitted an Application to revise its method of determining avoided cost prices for standard contracts with Qualifying Facilities (QF). Idaho Power currently uses the "Surrogate Avoided Resource" (SAR) method, which is the method it uses in Idaho. In Order 05-584, the Commission directed Idaho Power to use the SAR method in Oregon for consistency with its practice in Idaho. The company now proposes to change to the Integrated Resource Plan "IRP" method, and requests an investigation of this proposed change. Idaho Power requests a temporary stay on all QF standard contracting activity during the investigation.<sup>1</sup>

<sup>1</sup> At the same time it filed a request for investigation and stay, Idaho Power submitted new avoided costs in compliance with OAR 860-029-0040(3), which requires utilities to file avoided costs within 30 days of Commission acknowledgment of its IRP. Idaho Power calculated the avoided costs for its compliance filing using the SAR method. Idaho Power subsequently filed alternate schedules of avoided cost prices using the method ordered by the Commission for PacifiCorp and PGE (the "Oregon Method") to calculate prices for both resource sufficient and resource deficient years. Idaho Power's compliance filing and supplemental filings have been docketed as UM 1593 and are the subject of companion Staff Report prepared for the Commission's regular public meeting on April 24, 2012.



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Idaho Power asserts that the IRP method improves on the SAR method because it creates specific avoided cost rates for each individual QF or class of QFs. Idaho Power states that such rates will "capture the generating profile of the specific resource[.]" e.g., intermittent wind QFs will have a wind-specific avoided cost price that will be based on the generation characteristics of a wind project. Idaho Power explains that the IRP method will also allow the dispatchability of the resource, the timing of power deliveries, integration costs, and the cumulative impact of QF development to be factored into the avoided cost rate. Finally, Idaho Power asserts that allowing Idaho Power to use the IRP method will be administratively efficient because this is the method Idaho Power uses for non-standard QF contracts in Oregon and some contracts in Idaho.

#### Staff Analysis

Idaho Power states that the SAR method results in avoided cost prices that exceed the true avoided cost. Staff agrees. The SAR method calculates the fixed and variable costs of the proxy CCCT in all years, including resource sufficient years. In contrast, the other Oregon utilities use a market price in resource sufficient years. The SAR price is substantially higher than market prices. The 20-year levelized price using the SAR method was \$68.58 per MWh, versus \$62.45 per MWh using market prices until 2016 and the SAR method thereafter.<sup>2</sup>

The SAR method also produces higher avoided cost prices in resource deficient years. The SAR proxy resource is a combined cycle combustion turbine (CCCT) with specifications prescribed in 2009 in Idaho Public Utilities Commission Order No. 30378. The specifications include a higher capital cost and higher heat rate than the combustion turbine described in Idaho Power's 2011 IRP.

Idaho Power has a higher percentage of QF power supply than the other regulated utilities in Oregon. For the period April 2012 through March 2013, Idaho Power forecasts that QF power will supply 17 percent of its total system load. This is an increase of 6 percent from the forecast for the April 2011 to March 2012 period. In comparison, PacifiCorp forecasts QF power will supply less than 5 percent of its total system load during 2013.

Idaho Power states in its supporting testimony that in 2012, its payments to QFs will exceed what it would pay on the market for that power by \$69 million (company-wide). The company has pending standard contract requests totaling an additional 73 MW (nameplate) in Oregon, of which 70 MW are wind. For the 73 MW of new QF contracts currently pending in Oregon, avoided cost payments using the SAR method in resource

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<sup>2</sup> Idaho Power's IRP calls for operation of the Boardman to Hemingway transmission line in 2016.

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sufficient years will exceed the market price for that power by approximately \$6.4 million per year.

Based on these figures, Staff is persuaded that the SAR method does result in higher avoided cost prices than the company would incur but for their QF obligations. For several reasons, however, Staff recommends the Commission reject Idaho Power's request to open an investigation into Idaho Power's proposed IRP methodology.

First, the avoided cost methodology previously adopted by the Commission in Docket No. UM 1129, as modified by subsequent orders, is the appropriate substitute for the SAR methodology. The Commission adopted this method in 2005 (hereinafter referred to as the "Oregon method") and PacifiCorp and PGE have used it since that time. (See Order No. 05-584 at 26-27.) The Commission did not order Idaho Power to use the Oregon method in UM 1129 for reasons of "administrative efficiency." The Commission's determination in this regard was based on the fact that Idaho Power was required to use the SAR method in Idaho, where most of its load is located. (OPUC Order No. 05-584 at 26; Docket No. UM 1129).

Because the SAR method no longer produces realistic avoided cost prices, the Commission's concern regarding administrative efficiency is no longer a sufficient reason to exempt Idaho Power from the Oregon method and the Commission should simply order Idaho Power to use the Oregon method to calculate avoided cost prices.

The Oregon method uses market prices in resource sufficient years and a proxy CCCT in resource deficient years. The proxy CCCT should have capacity factor and cost parameters consistent with the most recent IRP. By basing the proxy resource on the same resource described in the IRP, we ensure that the assumptions used in calculating avoided costs are consistent with those used in resource planning. This is the method ordered by the Commission in Docket No. UM 1129 after considering alternate methods and positions of many stakeholders.<sup>3</sup>

Staff believes an investigation into a new avoided cost method for Idaho Power, other than using the Oregon method as further discussed in staff's companion public meeting memo, would take many months, necessitating a long period of uncertainty for QFs.<sup>4</sup> The IRP method, as described in Idaho Power's testimony, is based on the "AURORA" model, a complex computer model that simulates the market over the Western Electricity Coordinating Council (WECC) footprint on an hourly basis. Idaho Power has

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<sup>3</sup> The Commission found in Order 06-538 that a calculation based on the most recently acknowledged IRP is reasonable.

<sup>4</sup> The Idaho Commission initiated a proceeding to review the SAR and IRP methods on September 1, 2011 in Order No. 32352. The current schedule calls for a conclusion after September 2012.

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experience with the IRP method because it uses that method in negotiating contracts with QFs larger than 10 MW, and with wind and solar QFs in Idaho that are larger than 100 kW. However, small QFs in Oregon have little experience with the IRP method and may not have experience with AURORA. Staff believes the investigation could take up to a year.

If the Commission opens the investigation as requested by Idaho Power, the Commission would need to decide on a course of action for the interim. If the Commission grants the stay as Idaho Power requests, QFs will have no Standard Contract available for the duration of the investigation, effectively freezing all QF activity for what may be a year. If the Commission denies the stay, the Commission will have to decide whether to require that the prices in contracts adopted during the investigation be trueed up after the Commission reaches a decision regarding the appropriate avoided cost methodology.<sup>5</sup> It is Staff's understanding that interim prices subject to true-up would hamper QFs' ability to finance projects or at least makes it difficult for QFs to decide whether to contract with a utility.

#### Conclusion

Staff recommends that the Commission deny Idaho Power's request for investigation of the IRP method and deny the motion for temporary stay.

#### **PROPOSED COMMISSION MOTION:**

Idaho Power's request for investigation of the IRP method be denied. Idaho Power's request for a temporary stay be denied.

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<sup>5</sup> In lieu of a stay, Idaho Power suggested alternative forms of relief. Specifically, the company suggested either "... (1) an order declaring that prices contained in QF purchase agreements entered into by Idaho Power after the date of this motion be subject to the Commission's final decision on the Company's Application; or (2) an order limiting to one year the term of any QF contract entered into after the date of this Motion and prior to completion of the Commission's investigation." These options require QFs to go through the contracting process twice, or face an unknown "true up" process if the investigation ends with a change in the avoided cost calculation method.