

BEFORE THE PUBLIC UTILITY COMMISSION

OF OREGON

UM 1730

In the Matter of)
)
IDAHO POWER COMPANY,) RENEWABLE ENERGY
) COALITION’S COMMENTS
Annual Application to Update Avoided Cost)
Rates, Schedule 85, Cogeneration and Small)
Power Production Standard Contract Rates.)
_____)

I. INTRODUCTION

The Renewable Energy Coalition (“Coalition”) submits these comments regarding the May 1, 2018 avoided cost rate update filing made by Idaho Power Company (“Idaho Power”). The Coalition opposes Idaho Power’s extremely low gas price forecast that has never been used to set avoided cost rates, and requests that the Commission direct Idaho Power to use a more reasonable gas price forecast. The Commission should approve new avoided cost rates using the more accurate gas price forecast that Idaho Power has traditionally used, or, in the alternative, suspend Idaho Power’s avoided cost filing because suspension is necessary to address the concerns about the natural gas forecast.¹

II. BACKGROUND

On May 1, 2018, Idaho Power filed an update to its avoided costs combining its post-Integrated Resource Plan (“IRP”) acknowledgement update with its annual May 1 avoided cost update. For its natural gas forecast, Idaho Power notes that it “utilized the updated release

¹ Re Investigation Related to Electric Utility Purchases from Qualifying Facilities, Docket No. UM 1129, Order No. 05-584 at 36-37 (“We encourage . . . interested parties to seek suspension of an avoided cost filing when necessary to address concerns about natural gas forecasts.”).

of the same U.S. Energy Information Administration (“EIA”) reference case used in Idaho Power’s most recently acknowledged 2017 IRP and used in the Company’s last two updates to Schedule 85 standard avoided cost prices (UM 1793 and UM 1730(3)).” Idaho Power also states that it is using the 2018 Annual Energy Outlook (“AEO”) natural gas forecast published February 6, 2018 but does not indicate which forecast from the AEO it is using. While Idaho Power did not state which forecast it is using in its letter, a review of Idaho Power’s workpapers makes clear that Idaho Power is using the EIA’s AEO 2018 “High Oil and Gas Resource and Technology case,”² and not the “Reference case.”³ The High Oil and Gas Resource and Technology case⁴ forecasts a low natural gas price over the planning horizon.

III. COMMENTS

A. **Idaho Power Proposed a New Gas Price Forecast Not Previously Used to Set Avoided Cost Rates in Either Oregon or Idaho**

Idaho Power fails to provide the Commission with complete and accurate information when it states that the gas price forecast used in this update is the same as the one used in the last two avoided cost updates. While both forecasts are taken from the AEO, the forecast used in this update is based on different assumptions than the prior two updates. In fact, the natural gas forecast used in Idaho Power’s current avoided cost rate filing is dramatically and materially different than the one used in its prior avoided cost updates and past IRPs.

² Idaho Power’s Workpapers, Table 9.

³ The Reference Case is “a business-as-usual estimate, given known market, demographic, and technological trends.” EIA, 2016 Annual Energy Outlook report, at MT-1 (available at: [https://www.eia.gov/outlooks/aeo/pdf/0383\(2016\).pdf](https://www.eia.gov/outlooks/aeo/pdf/0383(2016).pdf)) (hereafter referred to as 2016 AEO).

⁴ The High Oil and Gas Resource and Technology Case assumes 50% higher ultimate recovery per well, 50% higher rates of technological improvements, and 50% higher technically recoverable undiscovered resources. U.S. EIA, Oil and Natural Gas Resources and Technology at 8 (March 2018) (available at: https://www.eia.gov/outlooks/aeo/section_issues.php).

Idaho Power's filing uses the same (but updated) forecast from Idaho Power's 2017 IRP that was orally acknowledged on April 10, 2018. As there is no written order, it is unclear whether the Commission acknowledged the use of Idaho Power's gas price forecast. Therefore, there is no Commission approved or acknowledged gas price forecast for Idaho Power to use in this avoided cost update.

The gas price forecast that Idaho Power used in its 2017 IRP is not the same as what Idaho Power has historically used for avoided cost and integrated resource planning. The prior two updates filed well before the 2017 IRP was acknowledged on July 21, 2017 (UM 1793) and May 1, 2017 (UM 1730(3)) would have used the same forecast from Idaho Power's 2015 IRP. The 2015 IRP used the AEO's Henry Hub "Reference case" forecast.⁵ In contrast, the 2017 IRP and this avoided cost update use the AEO's Henry Hub "High Oil and Gas Resource and Technology case." There are at least five materially different relevant AEO Henry Hub gas forecasts that Idaho Power could have chosen from. Simply because both forecasts are from the AEO, it is not correct to say that forecasts are the same. Idaho Power appears to be intending to cause the Commission and other parties to believe either that Idaho Power decided not to proceed with its unreasonable forecast from its 2017 IRP or that it has already been using it in prior avoided cost updates. Both are false.

B. Idaho Power's Proposed Gas Price Forecast Is Inaccurately Low and Fails to Reflect Its Full Avoided Costs

The natural gas price forecast that Idaho Power is using is not a reasonable projection of future natural gas prices, and therefore it does not accurately estimate Idaho Power's full avoided costs. Idaho Power's avoided cost rates are based on market forecasts in the early

⁵ See Idaho Power's 2015 IRP at 85.

years prior to a new resource acquisition (the sufficiency period from 2018 to 2025) and a gas generation plant in the later years (the deficiency period starting in 2026). The use of market prices during the first eight years (for QFs that are only able to enter into fifteen year contracts) already results in extremely low avoided cost rates regardless of the gas price forecast used. However, gas price forecasts have a significant impact on estimates of market prices and the variable costs of gas generation plants.

The forecast that Idaho Power is proposing to use is the updated version of the gas price forecast used in Idaho Power's 2017 IRP (the EIA's AEO 2016 High Oil and Gas Resource and Technology case), to which the Coalition and other parties objected to in the IRP process. Staff pointed out in the IRP process that Idaho Power "seems to have used subjective judgment in determining what a likely future was."⁶ Staff also recommended that the Commission direct Idaho Power to indicate in its IRP update the forecast it planned to use in its next IRP and to direct that Idaho Power use a more prudent approach to the gas price by reverting back to the EIA Reference case for the 2019 IRP.⁷ Thus, Staff disagreed with Idaho Power's abnormally low gas price forecast.

At the Public Meeting on April 10, 2018, the Coalition requested that the Commission specifically carve out and not acknowledge the natural gas price forecast and direct Idaho Power to use a more mid-range forecast in its next IRP. In its oral acknowledgement of the 2017 IRP at the April 10, 2018 public meeting, the Commission did not specifically address the gas price forecast. The written order has not yet been released so it is not clear whether the

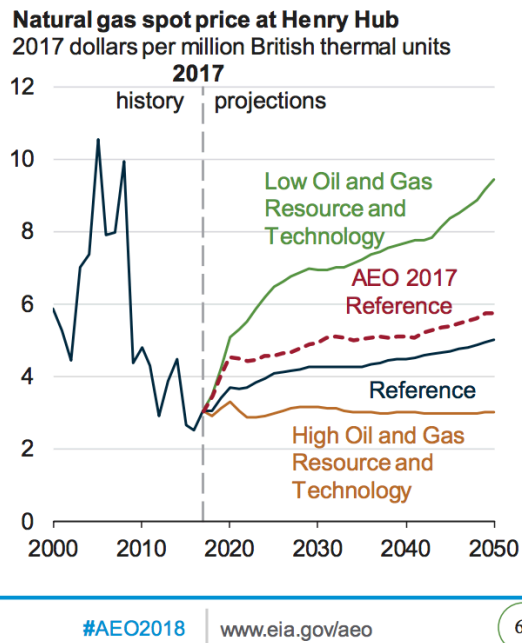
⁶ Re Idaho Power Company 2017 IRP, Docket No. LC 68, Staff's Opening Comments at 25 (Oct. 31, 2017).

⁷ Re Idaho Power Company 2017 IRP, Docket No. LC 68, Staff Report at 39 (Mar. 27, 2018).

Commission has any comment on the gas price forecast.⁸

In the AEO 2018, the EIA noted that natural gas is “highly sensitive to domestic resource and technology assumptions,” and it analyzes a number of these assumptions by preparing “side cases” with different inputs.⁹ While there are five Henry Hub AEO forecasts, three cases are relevant to this discussion: 1) the Reference case, 2) the High Oil and Gas Resource and Technology side case, and 3) the Low Oil and Gas Resource

Figure 1



and Technology side case. These three are reflected in the EIA’s chart depicted in figure 1. This year the EIA specifically highlighted the great uncertainty that goes into the natural gas price forecasts and prepared a more in-depth report discussing the background of one of the

⁸ The Commission’s decision regarding Idaho Power’s gas price forecast in the 2017 IRP illustrates the Coalition’s frustration with the manner in which Oregon sets avoided cost prices. Parties are to expend considerable resources in long process without clarity regarding when, or even whether, issues that have huge economic impacts will be resolved. If a party is interested in the impact of a particular input or assumption on avoided cost prices, then they must fully participate in the IRP. However, the IRP is not a contested case, and the Commission rarely explicitly addresses issues relevant to avoided costs. Idaho Power’s IRP did not engender the wide group of stakeholders as the PacifiCorp and Portland General Electric Company IRPs, and the Coalition was the only intervenor in Idaho Power’s IRP that focused solely on an issue other than the Boardman to Hemmingway transmission line. Despite filing two rounds of comments, participating in all the workshops and meeting, and specifically requesting that the Commission address the gas price forecast at the final Public Meeting, the Commission did not address the issue when issuing its oral order at the Public Meeting.

⁹ U.S. EIA, AEO 2018 at 30, 63 (Feb. 6, 2018) (available at: <https://www.eia.gov/outlooks/aeo/pdf/AEO2018.pdf>).

key assumptions (ultimate recovery per well) and the sensitivity results in the AEO 2018 as one of its “Issues in Focus.”¹⁰

The Reference case assumes trend improvement in known technologies, economic and demographic trends, and generally assumes that current law and regulations remain in place including existing sunset dates.¹¹ The AEO 2018 Reference case is 14% lower than the 2017 Reference case to account for an estimated increase in lower cost resources.¹² However, the Idaho Power still proposes to use the High Oil and Gas Resource and Technology side case, which assumes 50% higher ultimate recovery per well, 50% higher rates of technological improvements, and 50% higher technically recoverable undiscovered resources.¹³ As shown in figure 1, it is essentially flat in real dollars over the planning horizon. On the other end of the spectrum, the Low Oil and Gas Resource and Technology side case assumes 50% lower ultimate recovery per well, 50% lower rates of technological improvement, and 50% lower technically recoverable undiscovered resources.¹⁴ It is simply not reasonable for Idaho Power to assume that the assumptions underlying the High Oil and Gas Resource and Technology case reflect a likely future.

FERC regulations mandate that utilities pay QFs a price set at the utility’s “full avoided cost.”¹⁵ Avoided costs are “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

¹⁰ U.S. EIA, Oil and Natural Gas Resources and Technology (March 2018) (available at: https://www.eia.gov/outlooks/aeo/section_issues.php).

¹¹ AEO 2018 at 9.

¹² Id. at 64.

¹³ U.S. EIA, Oil and Natural Gas Resources and Technology at 8 (March 2018) (available at: https://www.eia.gov/outlooks/aeo/section_issues.php).

¹⁴ Id.

¹⁵ Am. Paper Inst., Inc. v. Am. Elec. Power Serv. Corp., 461 US 402, 406, 413-17 (1983); see also 18 CFR 292.101(b)(6), 292.304(b).

for the purchase from a qualifying facility.”¹⁶ Consistent with federal law, Oregon law mandates that the “price for such purchase shall not be less than the utility’s avoided cost.”¹⁷ Oregon law also requires that the Commission follow state policies to increase marketability of QFs and create a settled and uniform institutional climate for Oregon QFs.¹⁸

The Oregon Commission confirmed that “the goal of calculating avoided costs is to *accurately estimate* the costs a utility would incur to obtain an amount of power that it purchases from a QF, either by the utility’s self-generation or by purchase from a third party.”¹⁹ Avoided costs are calculated based on the IRP, updated as appropriate, and they are calculated for a period of 20-25 years.²⁰

The natural gas price forecast used in the IRP may not always be the best forecast to calculate avoided costs. The IRP is a resource planning tool used to determine which resource mix is least-cost and least-risk. In its IRP, Idaho Power selected this low natural gas price forecast and performed a sensitivity analysis for higher natural gas prices, finding that its preferred portfolio ranked first under all but one of the gas price forecasts.²¹ Therefore, Idaho Power concluded that its preferred portfolio would be least-cost and least-risk as required under the IRP guidelines.²² It is not clear whether this is the appropriate methodology for portfolio selection. However, even assuming Idaho Power is correct that a historically low forecast should be used in its IRP, this type of analysis does not translate to the avoided cost

¹⁶ ORS 758.505(1).

¹⁷ ORS 758.525(2).

¹⁸ ORS 758.515(3).

¹⁹ Re Investigation Related to Electric Utility Purchases from Qualifying Facilities, UM 1129, Order No. 05-584 at 20 (May 13, 2005) (emphasis added).

²⁰ Id. at 21.

²¹ Re Idaho Power Company 2017 IRP, Docket No. LC 68, Idaho Power’s Final Comments at 45-46.

²² Id.

calculation. The fundamental goal in calculating avoided costs is determining what is the most *accurate estimate* of the future, not determining what resource mix is least-cost and least-risk. By carrying this unreasonably low natural gas price forecast from its IRP to its avoided cost calculation, Idaho Power is not accurately estimating what its likely future costs will be to generate power or purchase it from a third party. The risk of higher prices should be accounted for in determining what is the most *accurate estimate* of Idaho Power’s avoided cost.

The Idaho Public Utilities Commission (“IPUC”) already rejected Idaho Power’s use of the High Oil and Gas Resource and Technology case for setting avoided cost rates, which illustrates that the gas price forecast used in the calculation of avoided costs does not need to be the same as the one used in the IRP. The IPUC utilizes a different natural gas forecast in determining avoided costs than what is used by the utility in the IRP process. Specifically, the AEO “Mountain Region’s Electric Power sector” forecast is used for all utilities in Idaho.²³ Idaho Power objected to the use of this forecast and suggested that the IPUC instead use its preferred Henry Hub “High Oil and Gas Resource and Technology case.”²⁴ The Coalition objected to the use of this forecast,²⁵ and the IPUC Staff agreed that the forecast should not be changed in that proceeding but that if Idaho Power wanted to make such a substantial and

²³ See e.g. Idaho Power – Annual Update to Avoided Cost Rates, IPUC Docket No. IPC-E-18-05, Attorney General Letter at 2 (Apr. 5, 2018) (available at: <http://www.puc.idaho.gov/fileroom/cases/summary/IPCE1805.html>).

²⁴ See e.g. Idaho Power – Annual Update to Avoided Cost Rates, IPUC Docket No. IPC-E-18-05, Idaho Power Response Letter (Apr. 19, 2018) (available at: <http://www.puc.idaho.gov/fileroom/cases/summary/IPCE1805.html>).

²⁵ See e.g. Idaho Power – Annual Update to Avoided Cost Rates, IPUC Docket No. IPC-E-18-05, Coalition Comments (Apr. 30, 2018) (available at: <http://www.puc.idaho.gov/fileroom/cases/summary/IPCE1805.html>).

unprecedented change, then Idaho Power should bring a new docket to address the issues.²⁶ At a public meeting on May 3, 2018, the IPUC agreed with the Coalition and adopted Staff's recommendation. Further, it makes sense to maintain some consistency in avoided cost prices so as to discourage sales across state lines. While the Commission should not simply adopt Idaho's PURPA policies, the fact that the IPUC rejected Idaho Power's request and requires a different forecast should hold some persuasive authority in Oregon.

Additionally, the gas price forecast that goes into the IRP is completely controlled by the utility without vetting by the Commission or other stakeholders and therefore potentially inappropriate to include in the avoided cost calculation without question. The Coalition pointed out in the IRP process that this gas price forecast is inappropriate but to no avail. The Commission did not address it in its oral acknowledgement, and now it is proposed to be included as an automatic update to Idaho Power's avoided cost. Therefore, the Commission should take this opportunity to reject Idaho Power's gas price forecast. If the Commission is inclined to change the gas price forecast that Idaho Power has traditionally used, then it should investigate the appropriateness of Idaho Power's proposed gas price forecast later in the proceeding or open a generic docket, as the IPUC ruled.

III. CONCLUSION

Idaho Power's proposed gas price forecast, the High Oil and Gas Resource and Technology case, is inappropriate because it relies on aggressive assumptions about ultimate natural gas recovery, technology and discoveries. It is an extreme case. The Coalition opposed the use of this forecast in the IRP process, but Idaho Power justified its use (in part)

²⁶ See e.g. Idaho Power – Annual Update to Avoided Cost Rates, IPUC Docket No. IPC-E-18-05, Decision Memo at 4 (May 1, 2018) (available at: <http://www.puc.idaho.gov/fileroom/cases/summary/IPCE1805.htm>).

by performing a sensitivity analysis at higher natural gas prices. The Coalition has not taken a position as to whether that is an appropriate method for analyzing Idaho Power's resource decisions, however, if the Commission concludes that it is, the Commission should still direct Idaho Power to use a more appropriate gas price forecast in the calculation of its avoided costs: a forecast that meets the overarching goal of *accurately estimating* Idaho Power's avoided costs.

Dated this 11th day of May 2018.

Respectfully submitted,

A handwritten signature in cursive script that reads "Irion Sanger".

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