

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: June 28, 2022**

REGULAR  X  CONSENT \_\_\_\_\_ EFFECTIVE DATE  June 29, 2022

**DATE:** June 14, 2022

**TO:** Public Utility Commission

**FROM:** Ted Drennan

**THROUGH:** Bryan Conway, Caroline Moore, and Scott Gibbens **SIGNED**

**SUBJECT:** IDAHO POWER COMPANY:  
(Docket No. UM 1730(7))  
Updates Schedule 85, Cogeneration and Small Power Production  
Standard Contract Rates to Reflect the 2022 Annual May 1 Update.

**STAFF RECOMMENDATION:**

Approve Idaho Power Company's (Idaho Power or Company) update of Schedule 85, Cogeneration and Small Power Production Standard Contract Rates, with an exception. Direct the Company to move the start of deficiency period pricing from January 1, 2023 to January 1, 2024.

**DISCUSSION:**

Issue

Whether the Commission should approve Idaho Power's update of Schedule 85, Cogeneration and Small Power Production Standard Contract Rates.

Whether the Commission should approve Idaho Power's out-of-period update to its sufficiency/deficiency period.

Applicable Orders and Rules

OAR 860-029-0080(7)(a) specifies that on May 1 of each year, a public utility must file with the Commission updates to the avoided cost information filed under section (2) of this rule to be effective within 60 days of filing to reflect:

- (A) Updated natural gas prices;
- (B) On- and off-peak forward-looking electricity market prices;
- (C) Changes to the status of the Production Tax Credit [PTC]; and
- (D) Any other action of change in an acknowledged IRP update relevant to the calculation of avoided costs.

OAR 860-029-0080(8) provides:

A public utility may propose or the Commission may require a public utility to file the data described in OAR 860-029-0080(3) anytime during the two-year period between filing integrated resource plans to reflect significant changes in circumstances, including, but not limited to, the acquisition of a major block of resources or the completion of a competitive bid. Such a revision will become effective 90 days after filing.

## Analysis

### *Background*

On April 26, 2022, Idaho Power filed their annual avoided cost update, requesting an effective date of June 29, 2022. Idaho Power also requested an out-of-period update to the start date of its deficiency period, asking to move it forward from 2028 to 2023. Idaho Power explained that it had identified a capacity deficiency while preparing its 2021 IRP and has filed a request for a waiver of Oregon's competitive bidding rules (docket UM 2210) and submitted requests for proposals for capacity to meet resource needs in 2023 through 2025.

This is in line with comments made at the March 8, 2022 public meeting.<sup>1</sup> At the meeting, Idaho Power asked for a waiver of Oregon's competitive bidding guidelines. Idaho Power identified an immediate need for resources in their 2021 IRP, this shifted the sufficiency period from 2028 to 2023. When asked about the impacts to their May 1 annual avoided cost update, the Company informed the Commission they intended to move the sufficiency period to end in 2022, which was consistent with filings made in Idaho.

In response to questions from Staff and stakeholders, Idaho Power presented information related to their filing on June 7, 2022. The presentation was also filed in the docket in response to requests from stakeholders.

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<sup>1</sup> See discussion related to UM 2210.

Idaho Power' filing included updates to three inputs:

1. Resource Sufficiency/Deficiency date,
2. Natural Gas Forward Prices, and
3. Electric Forward Prices.

#### *Resource Sufficiency/Deficiency Date*

The Company's update to its avoided cost prices includes an out-of-cycle update to the start date of the deficiency period. The current deficiency period start date is 2028 and the Company proposes to move the start date to January 1, 2023. The Company states its proposed out-of-cycle update is based on their resource needs and resource acquisition plans.

In May 2021, following acknowledgement of their 2019 IRP in April 2021, Idaho Power announced its near-term capacity position had worsened. The announcement was a dramatic shift from the Company's 2019 IRP, which showed no capacity deficit until 2028. The avoided cost update following the 2019 IRP did not incorporate the new finding of immediate need for resources.

Idaho Power also issued a Request for Proposals (RFP) in May 2021, for a resource up to 80 MW. Because the RFP did not seek a resource that exceeded 80 MW, the Commission's competitive bidding rules did not apply.<sup>2</sup> In December 2021, Idaho Power asked the Commission to waive its Competitive Bidding Rules to allow Idaho Power to proceed as expeditiously as possible with an RFP for new resources that would come online in 2024 and 2025.<sup>3</sup> Idaho Power noted in that application that the capacity deficit for 2023 had grown to 101 MW and that this capacity would grow in 2024 and 2025.<sup>4</sup>

On December 31, 2021, Idaho Power issued an all-source RFP for new resources to "help meet IPC's identified capacity needs of 85 megawatts (MW) in 2024 and an incremental 125 MW in 2025."<sup>5</sup> The RFP specifies that the resource(s) for the 85 MW request must be on-line by June 1, 2024, and resource(s) to meet the incremental 125 MW of capacity must be on-line by June 1, 2025.<sup>6</sup>

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<sup>2</sup> The competitive bidding rules apply to acquisition of a major resource is defined in OAR 860-089-0100(1)(a) The acquisition is of a resource or a contract for more than an aggregate of 80 megawatts and five years in length.

<sup>3</sup> UM 2210 Application for Waiver of Competitive Bidding Rules (December 9, 2021).

<sup>4</sup> Id., p. 7.

<sup>5</sup> Idaho Power's 2022 All Source Request for Proposals (RFP) FOR PEAK CAPACITY AND ENERGY RESOURCES at 2.2 The Solicitation on page 3. Link:

[https://docs.idahopower.com/pdfs/AboutUs/businessToBusiness/2022\\_IPC\\_AllSource\\_RFP.pdf](https://docs.idahopower.com/pdfs/AboutUs/businessToBusiness/2022_IPC_AllSource_RFP.pdf).

<sup>6</sup> Id.

Stakeholders do not agree with Idaho Power's proposal to move the start date of the resource deficiency period. Typically, such a change would be welcome by the development community because the general expectation is for lower avoided cost prices in the sufficiency period (based on forward electric prices) and higher prices in the deficiency period (based on a proxy resource). Given the current markets however, the converse is true. Accordingly, moving the deficiency period forward for purposes of Idaho Power's avoided cost prices lowers the levelized cost of the PPA.

Staff's analysis does not turn on the impact to avoided cost prices but on whether the proposed out-of-cycle update is consistent with the Commission's precedent. Staff believes that it is. OAR 860-028-0080(8) specifies an out-of-cycle update may be appropriate to reflect significant changes in circumstances, including, but not limited to, the acquisition of a major block of resources. Staff believes Idaho Power's December 2021 RFP is sufficient proof of the change of circumstances that warrant revisiting its avoided cost prices and that the 2022 RFP is sufficient proof of the Company's plan to acquire major resources.

Staff also believes more general circumstances warrant the update out-of-cycle. There is no ambiguity that warrants waiting for the Commission to vet Idaho Power's proposed acquisition in the IRP. Further, basing Idaho Power's avoided cost prices on the Company's actual resource acquisition plans helps to ensure the avoided cost prices mirror the Company's actual avoided costs.

That said, Idaho Power's proposal to move the resource deficiency start date to January 1, 2023, appears to be based on its determination that it has a 101 MW capacity deficit starting in 2023. However, a capacity deficit does not trigger a resource deficiency period. Instead, the start date is triggered by a utility's plan to acquire a new major resource as defined for the competitive bidding guidelines. Although Idaho Power issued an RFP for a resource to come on-line in 2023, the RFP does not seek a resource that satisfies the criteria of a major resource.

Instead, the first "major resource" Idaho Power plans to acquire is a new resource that can be on-line by June 2024. Under the Commission's rules, as they apply to planned resources in an acknowledged utility's Action Plan, the resource deficiency period should start January 1, 2024.

#### *Natural Gas Forward Prices*

Idaho Power filed their update using the most current version of their independent-third party forecast source, Platts. These forecasts are updated quarterly, with a new one anticipated this month or next. Stakeholders raised concerns about the forward gas forecast, believing current world events, specifically the situation in Ukraine, justify

higher long-term gas forwards. QF developers believe that current events could portend a fundamental shift in long-term gas prices.

Staff believes that updated long-term projections may reveal assumptions about a changed market for gas, but it is not clear at this point if such changes would be due to a market shock that will moderate over time or a more fundamental shift in the market. Platts has not produced a more recent gas price forecast than what is used in Idaho Power's update.

While a new price forecast will be issued shortly, there is no certainty as to whether this forecast is a more reliable indicator of the long-term outlook for gas prices than the forecast produced in March. Furthermore, waiting for this new long-term gas price forecast and then vetting it will the delay avoided cost price update.

#### *Electric Forward Prices*

Forward electric market prices in the near term have risen appreciably given the drivers, both domestic and abroad. Idaho Power's avoided cost prices only rely on those market prices for the year 2022, movement of the sufficiency period however has in effect, limited the impact of the changes seen in the electric forward markets. That is, by moving the sufficiency date, rates for 2023-2027 are less than if the market forwards were used

#### *Price Comparison*

The Company's proposed standard fixed levelized avoided costs for a 15-year contract (2023-2037) as shown in Table 1 saw increases for the baseload and solar resources, with a slight decline for wind resources. As discussed above, the price differences for the Baseload resource would be larger if the sufficiency date had not been moved. Substituting the forward market price for the proxy resource in the year 2023 raises the baseload rate by approximately \$2.47/MWh levelized over 15 years 2023-2037 for the baseload resource.

*Table 1: 15-Year Levelized Price Comparison (2023-2037)*

Resource Type	Proposed Rates (\$/MWh)	Current Rates (\$/MWh)	Difference (\$/MWh)
Baseload	\$42.11	\$38.73	\$3.39
Solar	\$37.51	\$34.56	\$2.95
Wind	\$31.93	\$32.37	\$(0.44)

Conclusion

Staff believes Idaho Power followed the requirements for updating its avoided cost rates. While some stakeholders may not approve of an out-of-cycle update to the sufficiency date, Staff believes it is appropriate given the Company's resource acquisition plan. However, Staff believes the sufficiency period should last through 2023, with the deficiency period starting in 2024.

**PROPOSED COMMISSION MOTION:**

Approve Idaho Power Company's update of Schedule 85, Cogeneration and Small Power Production Standard Contract Rates, with an exception. Direct the Company to move the start of deficiency period pricing from January 1, 2023 to January 1, 2024.