

ITEM NO. CA 7

PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: May 30, 2017

REGULAR \_\_\_\_\_ CONSENT X EFFECTIVE DATE June 1, 2017

DATE: May 23, 2017

TO: Public Utility Commission

FROM: Brittany Andrus *BA*

THROUGH: Jason Eisdorfer *J* and John Crider *JC*

SUBJECT: IDAHO POWER COMPANY: (Docket No. UM 1730) Annual May Update of Avoided Cost Rates Schedule 85, Cogeneration and Small Power Production Standard Contract Rates.

**STAFF RECOMMENDATION:**

Staff recommends that the Commission issue an order approving Idaho Power Company's (Idaho Power) filing of its revised Schedule 85, Cogeneration and Small Power Production Standard Contract Rates, effective June 1, 2017.

**DISCUSSION:**

Issue

Whether the Commission should approve Idaho Power's revised Schedule 85 filing for standard avoided cost prices and if so, whether the Commission should make the updated prices effective June 1, 2017.

Applicable Orders

On February 24, 2014 the Commission issued Order No. 14-058 in Phase I of its Investigation into Qualifying Facilities Contracting and Pricing (Docket No. UM 1610) resolving several disputed issues. One resolved issue was the "Schedule for Avoided Cost Updates." The Commission stated,

[a]fter reviewing the parties proposals, we adopt a new requirement for an annual update on a specific day each year, in addition to the current complete avoided cost update following each IRP [Integrated Resource Plan] acknowledgement

order. We direct electric utilities to update their avoided cost rates 30 days after IRP acknowledgement, and on May 1 of every year. In the event that an IRP is acknowledged within 60 days of May 1 in a particular year, the Commission will use its discretion at that time to direct a utility to waive its 30-day post IRP update.

Annual updates, filed every May 1, will include the following four factors:

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

Electric utilities' annual updates will be presented at a public meeting, with a rate effective date within 60 days of the May 1 filing.<sup>1</sup>

### Background

Idaho Power's Schedule 85 avoided cost prices includes three price streams: Baseload, Wind, and Solar, each adjusted for the resource type's relative capacity contribution. Idaho Power is not required to meet Oregon's Renewable Portfolio Standard and therefore does not offer renewable avoided costs. The PTC is not applicable for the same reason.

Idaho Power's current standard avoided cost prices became effective on September 27, 2016.<sup>2</sup> The avoided cost prices in Idaho Power's May 1, 2017 filing incorporate two of the factors applicable to the May 1 annual updates: updated natural gas prices and updated forward market electricity prices. Idaho Power requests an effective date of June 1, 2017.

### Discussion and Analysis

The avoided cost prices filed on May 1 are lower than those currently in place. Lower forward market electricity prices lower the sufficiency period prices. Lower gas prices result in lower deficiency period price for all technologies because the avoided resource is thermal. Idaho Power has no avoided renewable resource as they do not have a Renewable Portfolio Standard compliance requirement. For the same reason, the PTC is not applicable to Idaho Power's avoided cost prices.

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<sup>1</sup> Order No. 14-058 at 25-26.

<sup>2</sup> Order No. 16-360, September 27, 2016.

The estimated 15-year levelized prices<sup>3</sup> under the current and proposed schedules are shown in Table 1 below.

**Table 1. Standard Nonrenewable Prices (\$/MWh)**

	Baseload	Wind	Solar
Current	38.02	14.12	39.10
Proposed	36.36	11.18	37.63
Difference	-4.4%	-20.8%	-3.7%

*Stakeholder Comments*

The Renewable Energy Coalition (Coalition) submitted comments arguing that this update to avoided costs should not go into effect until June 28, 2017. In those comments the Coalition acknowledges that “[b]ased on the comments of Chair Hardie and Commissioner Decker at the May 18, 2017, public meeting regarding PGE’s avoided cost rate filing, the Coalition understands that in future years qualifying facilities (“QFs”) should no longer have a reasonable expectation that rate changes will always occur at the end of June.”<sup>4</sup> Accordingly, the Coalition is already aware that future May 1 avoided cost filings may become effective within the 60 days as outlined in Order No. 14-058, and that there should be no expectation among parties that the effective date will be consistent year-over-year.

However, the Coalition argues that an expectation was set by Commission Staff and the Commission that avoided cost updates for 2017 would become effective the day after the last public meeting in June of this year. In support of the argument, the Coalition excerpts the following statement from Staff’s Public Meeting Memorandum regarding PacifiCorp’s May 15 avoided cost filing: “Future Pacific Power avoided cost updates will be filed under Docket No. UM 1729, and Staff will present the filings at a public meeting preceding the 60<sup>th</sup> day from the filing date.”<sup>5</sup> The Coalition asserts that this statement, when coupled with Staff’s efforts to create certainty around effective dates in the following year, created a reasonable expectation on the part of QFs that the effective date for 2017 would be no earlier than day following the last public meeting in June. Because of this expectation, the Coalition requests that Idaho Power’s update not go into effect until June 28, 2017.

<sup>3</sup> Staff assumes a 15-year period from 2018 through 2032 for the proposed pricing, and from 2017 through 2031 for the current pricing.

<sup>4</sup> Comments of the Renewable Energy Coalition, UM 1729 and UM 1730, p.1.

<sup>5</sup> Id. p.2.

Going forward, the Coalition recommends that Commissioners set expectations explicitly, and state that future avoided cost updates will be considered at the last public meeting in June, but allow utilities to request an earlier effective date on a case-by-case basis. The Coalition is not disputing any components of the avoided cost filing.

*Staff Response to Stakeholder Comments*

Staff does not recommend that the Commission adopt the Coalition's request for a June 28, 2017 effective date in this proceeding. Staff disagrees that Staff's statements have given the Coalition a reasonable expectation that the May 1 update would be effective the day after the last public meeting in June. In its 2015 Public Meeting Memorandum regarding PacifiCorp's May 1 Update, Staff said the following regarding the effective date for the filing: "Staff's position is that a fixed effective date is, on balance, preferable to annual effective dates that vary with the Commission's public meeting schedule. Therefore, Staff recommends an effective date of June 30."<sup>6</sup> Importantly, the Commission rejected Staff's recommendation to make June 30<sup>th</sup> the date certain for the effective date of the May 1 Update. Instead, the Commission adopted PacifiCorp's request to make the May 1 Update effective the day after the public meeting at which the filing was considered. The Commission gave no indication that this would be the effective date used for future May 1 Updates. Given the Commission's rejection of Staff's proposal to have certainty regarding the effective date of the May 1 Update, the Coalition cannot reasonably rely on it to create a reasonable expectation of when the May 1 Update would be effective.

No other statements in the 2015 Public Meeting Memorandum suggest that Staff planned to present its recommendation regarding the utilities' May 1 Updates at the last scheduled public meeting in June. Instead, Staff noted that it would present its recommendation at a meeting preceding the 60<sup>th</sup> day from the filing date.<sup>7</sup> If Staff had intended to always wait until the scheduled public meeting, it would have said it would present its recommendation at "the" meeting preceding the 60<sup>th</sup> day from the filing date. As yet, the Commission has declined to set a specific, consistent effective date for avoided cost updates, and instead chosen to make that determination on a year-by-year basis. Where there have been concerns expressed by the Commission concerning regulatory certainty on this issue, they have occurred *in the context of the individual annual filings*, such as those expressed last year. In 2016, avoided costs were originally scheduled to be reviewed at the June 21 public meeting; but that meeting was canceled. The Commission nonetheless adopted a June 22 effective date; not to provide year-over-year effective date consistency, but to provide certainty within that current year. After the May 1, 2016 avoided cost updates were filed parties reasonably expected those updates would be effective June 22. To ensure certainty within the

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<sup>6</sup> Order No. 15-205, Att. A, p. 4

<sup>7</sup> Order No. 15-205, Att. A, p. 4.

context of that annual update, the Commission adopted a staff recommendation to make the effective date June 22, 2016 despite the fact that the Commission considered avoided costs at the June 7, 2016 public meeting.

The 2017 avoided cost effective date is not analogous. On May 1, 2017, Idaho Power filed avoided cost updates with a proposed effective date of June 1, 2017. That proposed effective date has not changed. Parties were aware at the time of the filing that the effective date was requested to be June 1, 2017. Meeting cancelations have not altered that proposed effective date, and Idaho Power has not requested that the Commission move that effective date. Accordingly, there is the same level of regulatory certainty afforded in 2017 as the Commission imposed in 2016. The dates are different, but the degree to which parties can rely on the effective dates as proposed in the May 1 updates is the same. Staff recommends that the June 1, 2017 effective date be adopted by the Commission.

As for future effective dates, the Commission has declined to adopt a consistent effective date in the past. In concept, avoided costs should be updated as quickly as possible in order to reflect actual market conditions. However, there is value in stakeholder review of avoided cost components. It is possible that avoided cost filings contain mistakes, as they have in the past. Staff acknowledges that sufficient time must be allowed for Staff and stakeholder review of filings and work papers. Accordingly, Staff recommends that the Commission be responsive to requests from Staff or Stakeholders for a change to a future proposed effective date due to a need for time to review avoided cost components.

### Conclusion

Staff's review of this filing and supporting work papers identified no concerns with the inputs and calculations used to derive the updated avoided cost prices. Staff concludes that Idaho Power's application to update Schedule 85 as filed on May 1, 2017 meets the requirements contained in Order No. 14-058, and that the avoided cost prices in this filing are reasonable.

### **PROPOSED COMMISSION MOTION:**

Idaho Power's Application to update Schedule 85, Cogeneration and Small Power Production Standard Contract Rates be allowed to go into effect on June 1, 2017, and the Commission shall permit sufficient time for review of avoided cost components by Staff and stakeholders for future avoided cost filings prior to an effective date.