

ITEM NO. 4

PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: June 23, 2015

REGULAR CONSENT EFFECTIVE DATE July 1, 2015

DATE: June 15, 2015

TO: Public Utility Commission

FROM: Brittany Andrus *BA*

THROUGH: *BA for JE* Jason Eisdorfer and Aster Adams *AA*

SUBJECT: IDAHO POWER COMPANY: (Docket No. UM 1730) Updates Qualifying Facilities Avoided Cost Payments, Schedule 85.

STAFF RECOMMENDATION:

Staff recommends that the Commission issue an order approving Idaho Power Company's (Idaho Power) updated avoided cost payments for Qualifying Facilities (QFs) contained in Schedule 85, filed on May 1, 2015, effective July 1, 2015.

DISCUSSION:

Issue

Under Order No. 14-058, utilities update their standard avoided cost prices on May 1 of every year. In this memorandum, Staff reviews Idaho Power's updated standard non-renewable avoided cost prices.

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 acknowledgement order. We direct electric utilities to update their avoided cost rates 30 days after IRP [Integrated

Resource Plan] acknowledgement, and on May 1 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; and
- (4) Any other action or 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.¹

The Commission later clarified that the May 1 updates would not begin in 2014 because compliance filings that included updates to avoided costs were required within 60 days of the issuance of Order No. 14-058.² Therefore, 2015 is the first year of annual May 1 avoided cost updates from the three electric utilities.

Background

Idaho Power's current Schedule 85 standard avoided costs were filed on July 3, 2014, and approved by the Commission on August 5, 2014.³ In accordance with Order No. 14-058, Schedule 85 now contains non-renewable avoided cost prices for three types of resources with varying contributions to peak load: baseload, wind, and solar. Idaho Power is not required to meet Oregon's Renewable Portfolio Standard and therefore does not have renewable avoided costs.

Idaho Power's filing contains two sets of avoided costs: one version based on a deficiency period beginning in 2016, and a second version based on a deficiency period beginning in 2021. The Company explains in its application,

[t]he Company's 2013 Integrated Resource Plan (IRP) contains a first capacity deficit of 2016. However, as set forth in the Company's Application for change in Resource Sufficiency Determination, filed on April 24, 2015, Docket No. UM 1725, the inclusion of more than 400 megawatts of demand response programs that were temporarily suspended in Idaho Power's 2013 IRP's capacity

¹ Order No. 14-058 at 25-26.

² Order No. 14-114.

³ Order No. 14-278.

sufficiency determination moves the Company's first capacity deficit to July 2021. The Company seeks approval of avoided cost rates that utilize the 2021 first capacity deficit.

The avoided cost prices in both versions of Schedule 85 incorporate updated natural gas price and forward market electricity prices. Idaho Power does not change its assumption regarding the Production Tax Credit and updates no other input.

Analysis

Both sets of avoided cost prices filed are significantly lower than those currently in place, due to lower natural gas prices, which in turn impact forward market electricity prices. In the case where the deficiency period begins in 2021, avoided costs are lower still, as during the sufficiency period, standard avoided cost prices are set at the market price. Lower gas prices also result in reduced prices during the deficiency period -which are based on the fixed and variable costs of a combined cycle combustion turbine.

Staff calculated the levelized costs for the current and the two proposed standard avoided cost prices for a baseload resource under Schedule 85, to illustrate demonstrate the impact of the changes. The prices below represent the fixed payment streams of the on- and off-peak prices for 15 years, levelized at the Company's rate of return, for the period 2016 through 2030.

	Baseload	Change from Current Schedule 37
Current Schedule 37, 2016 deficiency start	\$69.26	-
Proposed Schedule 85, 2016 deficiency start	\$60.19	-13.1%
Proposed Schedule 85, 2021 deficiency start	\$50.91	-26.5%

On May 27, 2015, Staff notified the parties in Docket No. UM 1610 that the May 1 updates had been filed, that Staff intended to place the filings on the June 23, 2015 public meeting agenda, and that comments could be filed. Renewable Energy Coalition (REC) filed comments on June 4, 2015 regarding the avoided cost updates filed by Pacific Power, Idaho Power, and Portland General Electric Company; however, no criticisms of Idaho Power's filing were included in those comments.

Staff's review of the two versions of Schedule 85 and the supporting work papers did not identify any concerns with inputs or calculations. With regard to the question of the deficiency period start date, Staff notes that this is not one of the four factors to be included in the May 1 update, except to the extent that an acknowledged IRP update would result in a deficiency period start date.

Idaho Power did not file an update to its 2013 IRP. The 2013 IRP acknowledgment order states,

Given that Idaho Power will file its next IRP with the Idaho commission by June 2015, we waive the requirement that Idaho Power file an annual update to this IRP. This waiver addresses only a routine IRP update, and we expect Idaho Power to file an IRP update if it anticipates a significant deviation from its acknowledged 2013 IRP in the manner required by IRP Guideline 3(f).

Staff concludes that Idaho Power had the option of filing an IRP update after its demand response programs were restarted in the summer of 2014. Had such an update been filed and acknowledged with the first year of deficiency of 2021, this May 1 filing would have been based on the later deficiency period start.

In the absence of such a filing, Staff recommends that the deficiency period start date remain at 2016. Staff concludes that the Schedule 85 filing based on a 2016 deficiency period start, as shown in Attachment 1 of the filing, meets the requirements contained in Order No. 14-058, and that the avoided cost prices are reasonable. Staff recommends that Schedule 85 based on the 2016 deficiency period start be approved effective July 1, 2015.⁴

PROPOSED COMMISSION MOTION:

Idaho Power's annual update to Schedule 85 Cogeneration and Small Power Production Standard Contract Rates, as shown in Attachment 1 to the filing, be allowed to go into effect on July 1, 2015.

⁴ Sixty days from May 1 is June 30; however, Idaho Power requested a July 1, 2015 effective date.