

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION) CASE NO. IPC-E-18-13
OF IDAHO POWER TO UPDATE THE LOAD)
AND GAS FORECASTS USED IN THE)
INTEGRATED RESOURCE PLAN AVOIDED) ORDER NO. 34217
COST MODEL)
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On October 15, 2018, Idaho Power Company filed its annual updates to certain components of its avoided cost rate calculation for qualifying facilities (QFs) under the Public Utility Regulatory Policies Act of 1978 (PURPA). Specifically, the Company updated the load forecast, natural gas forecast, and contract information components it uses to calculate avoided cost rates under the incremental cost Integrated Resource Plan (IRP) method.

The Commission subsequently set deadlines for interested persons to comment on the Application, and for the Company to file a reply, if necessary. *See* Order No. 34180. Commission Staff filed the only comments in the case, and supported the Company’s Application. The Company did not reply.

Having reviewed the record, the Commission issues this Order approving the Application, as discussed below.

BACKGROUND

Under PURPA, electric utilities must purchase electric energy from QFs at rates approved by the applicable state agency—in Idaho, this Commission. 16 U.S.C. § 824a-3; *Idaho Power Co. v. Idaho PUC*, 155 Idaho 780, 780, 316 P.3d 1278, 1287 (2013). The purchase or “avoided cost” rate shall not exceed the “‘incremental cost’ to the purchasing utility of power which, but for the purchase of power from the QF, such utility would either generate itself or purchase from another source.” Order No. 32697 at 7, *citing Rosebud Enterprises v. Idaho PUC*, 128 Idaho 624, 917 P.2d 781 (1996); 18 C.F.R. § 292.101(b)(6) (defining “avoided cost”).

The Commission has established two methods of calculating avoided cost, depending on the size of the QF project: (1) the surrogate avoided resource (SAR) method, and (2) the IRP method. *See* Order No. 32697 at 7-8. The Commission uses the SAR method to establish what are commonly referred to as “published” avoided cost rates. *Id.* Published rates are available for

wind and solar QFs¹ with a design capacity of up to 100 kilowatts (kW), and for QFs of all other resource types with a design capacity of up to 10 average megawatts (aMW). But if a QF's design capacity is above the published rate eligibility caps, the utility must use the IRP method to negotiate a project-specific avoided cost rate with the QF. *Id.* at 2; Order No. 32176. The IRP method accounts for “many different variables and produces [an avoided cost] result based on each individual utility's need for energy.” Order No. 32697 at 17. The variables in Idaho Power's IRP method are at issue in this case.

With respect to the IRP method, the Commission requires utilities to update fuel price forecasts and load forecasts each year on October 15. Order No. 32802 at 3. All other IRP method variables and assumptions remain fixed between the biennial IRP filings. Order No. 32697 at 22. The Commission expects the utility's load and resource balance to account for long-term contract commitments, and PURPA contracts that have terminated or expired. *Id.*

THE APPLICATION

Idaho Power provides its updated load forecast, natural gas forecast, and contract information, and explains that Idaho Power's IRP avoided cost model incorporates the updated information. The Company states it will use the model as the starting point to negotiate its contractual avoided cost rates as of October 15, 2018. Application at 2.

Idaho Power's updated load forecast is from October 2018 and “shows, on average, a decrease in its customer loads when compared to the October 2017 load forecast that was provided to the Commission for the 2017 update in Case No. IPC-E-17-15 and approved by the Commission in Order No. 33957.” *Id.* at 2-3. Idaho Power provides both the October 2017 and the October 2018 average annual load forecasts for years 2018 through 2036. *Id.* at 3.

Idaho Power's updated natural gas forecast is the Energy Information Administration's (EIA) Natural Gas Henry Hub Spot Price: High Oil and Gas Resource and Technology forecast, published on February 6, 2018. *Id.* at 4. The Company explains that the 2018 forecast shows “a decrease in the average annual natural gas prices over the remaining period” compared to the 2017 forecast. *Id.* at 4. Idaho Power provides both the 2017 and the 2018 forecasts for years 2018 through 2036. *Id.* at 4-5.

Finally, Idaho Power summarizes the contract termination, expiration and additions it has experienced since its 2017 update. *Id.* at 5-6. The Company provides the new, terminated,

¹ See Order No. 33785 (regarding battery storage facilities).

or expired contracts in Attachment 1 to the Application. *Id.* Since filing Case No. IPC-E-17-15, the Company has signed one new Oregon solar QF Energy Sales Agreement (ESA) for 3 MW, one new Idaho hydro QF ESA for 2.1 MW, and four replacement ESAs for existing Idaho QF projects for 7.17 MW.

Idaho Power asks the Commission to accept for filing its updated load forecast, natural gas forecast, and contract information.

STAFF COMMENTS

Staff reviewed the Company's Application and recommended the Commission accept the Company's updated load forecast, natural gas price forecasts, and contract information for purposes of calculating avoided cost rates through the IRP methodology, effective October 15, 2018.

Staff noted the Company's 2018 load forecast shows a slight decrease in load compared to the 2017 forecast. Staff said this small decrease in predicted load reflects a continuing trend in the economic conditions, and would not significantly affect avoided cost rates in future IRP-based QF contracts.

When analyzing the Company's 2018 gas price forecast, Staff noted that, in 2017, the Company changed the source of its price forecast from the EIA's Henry Hub Reference Case forecast to the EIA's Natural Gas Henry Hub Spot Price: High Oil and Gas Resource and Technology forecast. The Company then adjusted the forecast to reflect pricing at the Sumas Hub and transportation cost to the Idaho City Gate. Staff confirmed the Company used this method again in 2018.

Staff noted that, in 2018, the Company forecasts lower gas prices than it did in 2017, with differences in 2019 through 2036 ranging from -22.45% to -3.73%. The decreases in the 2017 and 2018 gas price forecasts reflect that more gas will be produced than consumed. In light of these favorable conditions, Staff believes the gas price decrease in the Company's 2018 forecast is reasonable.

Staff raised two concerns about the Company's reliance on the EIA's Natural Gas Henry Hub Spot Price: High Oil and Gas Resource and Technology forecast. First, as in Case Nos. IPC-E-17-11 and IPC-E-17-15, Staff stated that although futures market prices are indicators of natural gas prices for the first few years, Staff does not believe that extrapolating futures market prices over a twenty year time horizon is an acceptable method for choosing a long term forecast.

Second, Staff expressed concern that the EIA Spot Price forecast may overstate near-term gas prices and could result in inflated QF avoided cost rates for 2-year, IRP-based PURPA contracts. Staff observed Idaho Power forecasts higher prices from 2019 through 2022 than either Avista or Rocky Mountain Power. Staff explained this may be because the other utilities do not use EIA's forecasts. Rather, they use a combination of third-party forecasts over the long term and natural gas futures market prices for the short term. Staff is concerned the EIA's forecasts, on which Idaho Power relies, may include assumptions that do not reflect actual short-term market conditions or QF avoided costs for two-year PURPA contracts. Staff also observed that Idaho Power's EIA-based forecasts predict significantly lower gas prices in later years than do the forecasts from Avista and Rocky Mountain Power. These pricing disparities lead Staff to recommend that the Company closely research the underlying assumptions EIA uses to develop the various natural gas price forecasts, and discuss that research with stakeholders during the IRP natural gas price forecast analysis.

Finally, Staff verified the updated contract information in the Company's Application is correct.

In summary, Staff concluded the Company's load and gas price forecasts and long-term contract changes are consistent with Order Nos. 32697 and 32802. Staff thus recommended the Commission accept the updated forecasts and contract changes.

DISCUSSION AND FINDINGS

The Commission has jurisdiction over Idaho Power and the issues raised in this matter under Title 61 of the Idaho Code and PURPA. The Commission has authority under PURPA and Federal Energy Regulatory Commission (FERC) regulations to set avoided costs, to order electric utilities to enter into fixed-term obligations for the purchase of energy from QFs, and to implement FERC rules. Also, the Commission is empowered to resolve complaints between QFs and utilities and to approve QF contracts.

Pursuant to this authority, we have reviewed and considered the record in this case, including Idaho Power's filing and Staff's recommendation. We find that Idaho Power's filing complies with the directives issued by this Commission in Order Nos. 32697 and 32802. Based on our review of the totality of the updates, we find the updated inputs to Idaho Power's IRP avoided cost calculation are reasonable, and we accept them.

Regarding Staff's recommendation that the Company examine EIA's forecasting assumptions and caveats, we note that in Case No. IPC-E-17-15, Staff commented that the Company had changed its natural gas forecast from the EIA's Henry Hub Reference Case forecast to the EIA's Natural Gas Henry Hub Spot Price: High Oil and Gas Resource and Technology forecast. The Commission then ordered the Company to provide a reasonable basis for changing its EIA base forecast. *See* Order No. 33957. In this year's filing, the Company did provide additional justification for using the Henry Hub Spot Price: High Oil and Gas Resource and Technology forecast. But the review of that additional information does not entirely resolve our concerns about the accuracy of the EIA forecast and validity of the inputs and methodology on which it is based. We thus find it reasonable to direct the Company to closely analyze the underlying assumptions in the EIA forecast methodology, and to discuss that research as part of the IRP process.

ORDER

IT IS HEREBY ORDERED that Idaho Power's annual updates to its load and gas price forecasts and long-term contract status for purposes of its incremental cost IRP methodology are accepted, effective October 15, 2018.

IT IS FURTHER ORDERED that the Company closely analyze the underlying assumptions in the EIA's gas price forecast methodology, and discuss that research with participants in the IRP process as part of the natural gas price forecast analysis.

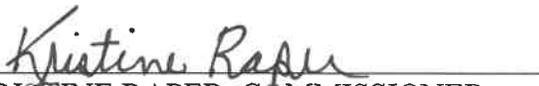
THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. *See Idaho Code* § 61-626.

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DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 18th
day of December 2018.



PAUL KJELLANDER, PRESIDENT



KRISTINE RAPER, COMMISSIONER



ERIC ANDERSON, COMMISSIONER

ATTEST:



Diane M. Hanian
Commission Secretary

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