



Idaho Public Utilities Commission

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Idaho commission reduces contract length for some PURPA projects to two years

BOISE (August 19, 2015) – The Idaho Public Utilities Commission is granting a request by the state’s three major electric utilities to reduce the length of negotiated PURPA* contracts to two years.

The commission found the previous 20-year contract length resulted in utilities and, consequently, customers paying unreasonable costs for renewable generation.

Federal PURPA law requires utilities to buy from qualifying renewable facilities (QFs) at an “avoided cost rate,” set by the commission. The avoided cost rate is to be equal to what the utility avoids by not having to generate the power itself or buy it from another source. Thus, customers are to be held harmless by the PURPA requirement that utilities purchase from QFs. However, the commission determined that long-term contracts unreasonably overestimate future avoided cost, resulting in higher costs to utilities and their ratepayers, contrary to PURPA’s avoided-cost principle. One hundred percent of PURPA power supply costs are passed on to ratepayers.

Last February, Idaho Power Company asked the commission to reduce QF contract lengths in response to a flood of solar project applications that it said would force it to buy energy it did not need, drive up rates and threaten the utility’s ability to reliably deliver energy. At the time, the commission had already approved 13 Idaho Power agreements with QF developers for 400 megawatts of solar energy. (The contracts for four of those projects, totaling 141 MW were later terminated.) Idaho Power claims it has 1,326 MW of QF solar capacity actively seeking energy sales agreements. Idaho Power now has 1,297 MW of renewable energy (not counting hydro) on its system or under contract. That’s 40% of its 2014 peak load of 3,184 MW and 120% of its total minimum load of 1,073 MW.

In response, the commission temporarily reduced contract lengths for negotiated PURPA contracts to five years while it investigated Idaho Power’s petition. Later, PacifiCorp, operating as Rocky Mountain Power in eastern Idaho, joined the case, claiming to have projects seeking

contracts totaling 275.5 MW in its Idaho territory. PacifiCorp has 189.6 MW of existing Idaho PURPA contracts – for a total of 465 MW of existing and proposed PURPA generation, enough power to supply 108 percent of PacifiCorp’s average Idaho retail load.

Idaho Power argued that allowing developers to obtain fixed prices over the long term causes electric rates to increase. Idaho Power’s average cost for PURPA generation since 2001 has always exceeded the regional market price. The average cost for PURPA purchases, according to Idaho Power, is \$62.49 per megawatt-hour compared to coal (\$22.79), gas (\$33.57) and non-PURPA, off-system purchases (\$50.64). PacifiCorp claims that over the next decade the energy it will buy from its 141 PURPA contracts in its six-state territory will cost customers an average price of \$66.32 per MWh, significantly higher than the regional market price of \$38.11 per MWh.

Renewable developers claim the reduction in contract length will end solar and wind development in Idaho. They argued that during 1996-2001 when contract length was five years, Idaho Power executed only one PURPA contract. The commission said it was not persuaded that setting negotiated contracts to two will years will result in a substantial decline of renewable resources. “The utilities all have ample amounts of PURPA on their systems and additional renewable generation is in the queue,” it said, adding that 20-year published rate* contracts are still in place.

The commission said shorter contract lengths will benefit consumers because the rate paid developers “becomes a truer reflection of the actual costs avoided by the utility and allows QFs and ratepayers to benefit from normal fluctuations in the market.” Utilities will still be required to purchase from qualifying renewable developers, but with a shorter contract length that “merely functions as a reset for calculation of the QFs avoided costs in order to maintain a more accurate reflection of the actual costs avoided by the utility over the long term.”

Once a two-year contract is approved, the commission noted, the new QF then becomes part of the utility’s resource stack and the contract is eligible for continuous renewal for as long as the developer chooses to continue selling power to the utility. Rocky Mountain Power, for example, states that limiting contract length does not mean the project will have only a two-year life. “Rocky Mountain Power will be required to purchase the power produced as long as PURPA requirements exist,” Rocky Mountain stated in its testimony. Limiting contract length “simply means that the price Rocky Mountain Power and its customers will be required to pay to the QF will be subject to adjustment ... and be more closely aligned with Rocky Mountain Power’s current avoided cost.”

Further, the commission noted, PURPA is not the only means through which a utility can acquire renewable resources. Utilities have developed non-PURPA renewable resources such as Avista’s agreement with Palouse Wind and Idaho Power’s agreement with Elkhorn Wind.

Renewable developers claimed the utilities are overreacting to the flood of applications, asserting that many of the projects seeking contracts will not be developed because, in Idaho

Power's case, as more projects are added to its queue, the avoided cost rate to be paid QFs declines. The utilities argued they must take each request for a contract seriously and that any added generation impacts the utility's power supply cost.

The change in the mandatory minimum contract length is "not intended to be punitive to QFs," the commission said. For several years, the commission has been adjusting terms and conditions of PURPA contracts "in order to establish avoided cost rates that are just and reasonable to electric consumers, in the public interest and not discriminatory against QFs."

Those opposing the change in contract length also argued that QFs should be treated similarly to utilities, which are able to build large generation sources with recovery for investment spread over as long as 30 to 50 years. However, the commission said, QFs differ from utility sources in several significant ways. For example, utilities cannot be compensated for energy produced from a generating facility without first establishing the need for that generation through the PUC's Certificate of Need process. That's different than PURPA, which requires utilities to buy QF power whether the power is needed or not. Second, a utility-authorized resource is typically subject to competitive bidding, cost scrutiny and oftentimes is able to fit into the utility's need for dispatch better than a mandatory QF. Third, the fuel component for utility plants is adjusted annually, but is fixed for the duration of fuel-based, long-term QF contracts. PURPA contracts are special, the commission said, because federal law compels utilities to buy power without arms-length bargaining and without regard to whether the utility needs the power.

The commission said it has a long history of encouraging PURPA projects and renewable energy development in Idaho. PURPA generation increased modestly in the first 25 years (1982-2007) to 200 MW. Since 2007, Idaho Power, in particular, has experienced a six-fold increase in PURPA generation to 1,161 MW. Its power supply expense, it claims, will have increased by 575% from 2004 to 2024.

During the course of this case, the commission conducted two public hearings, a technical hearing and received more than 200 written comments from customers.

Those commenting in favor of shortened contracts included a number of companies that are large consumers of power. Those companies cited an interest in keeping power costs low and fair and ensuring reliable service. Several of the companies said utilities should not be required to buy electricity they do not need. A number of Idaho school districts and community colleges also supported the petitions, noting the importance of maintaining low operational costs and supporting a balanced approach to encouraging wind and solar power.

Those opposing the utilities' petition included the City of Ketchum, the League of Women Voters and environmental organizations. They cited the need to promote renewable energy and claimed shorter contracts would eliminate solar development in Idaho. The Renewable Northwest Coalition, among other parties, supported keeping 20-year contracts but adjusting

the energy rate component of the contracts annually after 10 years. Commission staff argued in favor of reducing contract lengths to five years.

Parties to the case in addition to the three utilities and commission staff included the Idaho Conservation League/Sierra Club, Intermountain Energy Partners, Micron, JR Simplot Co., Snake River Alliance, Ag Power DCD/Ag Power Jerome, Amalgamated Sugar Co., Twin Falls Canal Company/Northside Canal Company/American Falls Reservoir District, Clearwater Paper Corp., Idaho Irrigation Pumpers Association and the Renewable Energy Coalition.

The commission's order and other documents related to this case are available on the commission's Website at www.puc.idaho.gov. Interested parties may petition the commission for reconsideration by no later than September 10, 2015. Petitions for reconsideration must set forth specifically why the petitioner contends that the order is unreasonable, unlawful or erroneous. Petitions should include a statement of the nature and quantity of evidence the petitioner will offer if reconsideration is granted. Petitions can be delivered to the commission at 472 W. Washington St. in Boise, mailed to P.O. Box 83720, Boise, ID, 83720-0074, or faxed to 208-334-3762.

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*PURPA, the federal Public Utility Regulatory Policies Act, was enacted by Congress in 1978 to encourage renewable development. It requires regulated utilities to buy energy from qualifying renewable generation projects at rates established by state commissions. FERC leaves it to states to develop the terms and conditions for PURPA contracts. Idaho has two different types of PURPA contracts, a published rate contract or a negotiated contract that is based on a utility's most recent Integrated Resource Plan (IRP). Wind and solar projects smaller than 100 kilowatts and non-intermittent (hydro, geothermal, cogeneration) projects smaller than 10 average megawatts qualify for the commission's "posted" or "published" avoided-cost rate and do not require a negotiation process. Wind and solar projects larger than 100 kW must negotiate for a contract using the utility's IRP as a basis.