

July 9, 2015

Commissioners Kjellander and Raper
Idaho Public Utilities Commission
472 W. Washington St.
Boise, Idaho 83702

RECEIVED
2015 JUL -9 PM 1:49
IDAHO PUBLIC
UTILITIES COMMISSION

Re: Dockets AVU-E-15-01, IPC-E-15-01, PAC-E-15-01

Dear Commissioners:

Idaho Power states that they face a tsunami of un-needed solar powered PURPA projects that will raise costs for their customers. The facts show otherwise.

Far from raising customer costs, the 320 megawatts or so of cost-effective solar PURPA projects that are likely to be built will provide economic benefits for Idaho Power customers as well as the larger Idaho economy. Between the inquiries and PURPA contracts terminated by Idaho Power that are not cost-effective there are projects totaling 1026 megawatts, > 76% of the alleged tsunami, that will never be built. There is no solar tsunami from which IPCo needs your protection.

I skipped many details while commenting at the June 24th hearing in the interest of brevity during a well-attended public meeting. I appreciate your taking time now to read the additional info provided below.

HOW SHOULD WE DEFINE “NEED”?

Two decades ago, when most all the homes and offices in the US had landlines, did we “need” mobile phones? New technology creates new opportunities. Needs change as technology changes. The electric utility industry is currently beset with technological and regulatory change. A fundamental question raised by this docket relates to how these changes affect Idaho Power’s “needs”.

Consider framing the definition of need in the following two ways:

1. If a utility, irrespective of total cost and risk, currently has access to adequate generation and/or a market for capacity and energy adequate to serve projected loads should we consider they have no “need” for additional energy and/or capacity?

or

2. If combining existing utility/market resources with some new technology offers opportunities to serve some of that same load at a lower total cost and/or risk, does the utility have a “need” for this new resource combination?

In a free market competitors exploit new opportunities for resource substitution, ensuring that costs and risks are minimized. In States with vertically integrated monopoly electric suppliers regulatory action is often required to reap those cost/risk reductions. In the old, fairly static, environment where electric utilities used to operate, we could get by using a definition of need similar to item #1. In the current utility environment, we need the flexibility to incrementally introduce new technologies where and when they can reduce cost or risk. Doesn't the changing environment make #2 the more appropriate definition today?

SOLAR PURPA PROJECTS PROVIDE SUBSTANTIAL NET BENEFITS

Adding cost-effective PURPA solar projects to Idaho Power's existing resource mix provides benefits to customers, the state, and Idaho Power itself.

To the extent that solar PURPA projects provide energy and capacity at a lower cost than the sum of the costs they allow the utility to avoid, they offer an opportunity to reduce total cost and/or risk. IPCo customers are held harmless by the avoided cost pricing structure. Their costs are actually reduced because the company gets free RECs (thus allowing reduced payments to its current REC suppliers). And now that IPCo has terminated the four Clark Solar PURPA contracts, customers will further benefit from over-recovery on the integration charges in the American Falls Solar II and Orchard Ranch Solar contracts.

PURPA adds jobs, tax payments, royalties and investment returns for Idaho citizens. And, as described in more detail below, wisely using the market forces that PURPA harnesses can help to implement change incrementally when warranted in this new electric utility marketplace.

THERE NEVER WAS A TSUNAMI THREAT

Change is scary in most organizations. Adding a large number of new non-utility owned variable energy solar resources on their system apparently represented a level of change that seems to have frightened at least a few folks at Idaho Power. Idaho Power's 15-01 filing can be seen as a frightened few pathetically crying "Wolf". I say "few" because over the last decade I've gotten to know lots of IPCo folks. They are by and large very competent, professional and motivated. They are fully capable of meeting competitive threats. Pathetic because those who asked the Commission to protect them from an imagined solar PURPA wolf knew their cry was a false alarm. They knew so from the cost structures unearthed in their IRP process.

Using an avoided cost pricing methodology ensures that "too much" PURPA solar can not be added to the utility's system. As more solar projects are added the value of the energy and capacity that they displace (i.e., the costs they allow the utility to avoid) declines. When sufficient numbers of earlier solar projects drive the value of the displaced energy and capacity of a proposed new project below the cost to build and operate that new PURPA facility, the new project won't get built. This system, like all free markets, self-regulates. It facilitates incremental, but only cost-effective, change.

IPC-E-15-01 was filed on January 30th. At the January 8th IRPAC meeting, the company distributed a handout, the resource cost "placemat", so called for the 11x17 size of the paper on which it is printed. That IRP "placemat" handout showed that a single axis utility scale solar farm they would build in 2016 would have a levelized cost of \$109/megawatt-hour. The solar PURPA contracts that had been signed and approved at that time included levelized costs ranging from the low \$80s to the mid \$50s per megawatt-hour. And documents Idaho Power submitted on January 30th show the 885 megawatts of PURPA inquiries averaged less than 70% of the levelized costs of the signed PURPA contracts. If the Company believed solar costs were more than \$100/MWh, shouldn't they have known that inquiries with pricing at less than half that number would not be economically viable and thus unbuildable?

You might ask, if solar truly provides a lower cost option for meeting customer needs why didn't adding solar show up as a preferred alternative in that just completed IRP process? The environmental community argued forcefully during the IRPAC process that IPCo's \$109/MWh solar cost estimate was grossly overstated. The company did reduce its out-years solar cost estimates, but not to anything near the levels in the approved PURPA projects. By estimating high costs for solar projects, they can easily and erroneously be shown as "not cost effective". PURPA market forces provide a valuable reality check to test utility planning assumptions.

ESTIMATING FUTURE PRICES

Of course forecasting future prices is difficult. Traders in markets all over the world know that. Sometimes our estimates are wrong (we can look back to the approval of the Langley Gulch which, fortunately, does not appear to be on track at the \$124/MWh cost level at which it was approved). But electrical infrastructure is inherently a long-term asset type. If we are going to make decisions on replacing or augmenting existing assets, we will need to base those decisions on estimates of future prices.

Idaho Power argues that the PURPA sub-set of infrastructure investments should be treated as if they were assets with a 2-year useful life on the grounds that it is too hard to estimate future prices. That is inherently unfair.

During the just concluded IRP process, there was much review of the value of building out the B2H transmission line. Adding that transmission line was shown to be valuable under many portfolio alternatives. Discussion then turned to when the line might be constructed. The gist of those discussions was that the line could be constructed in about three years. Construction could begin after necessary permits were acquired. The date for resolving all permitting issues is unknown but it was suggested they could be acquired as early as 2017.

If needed B2H permits are acquired by 2017, do we expect it to be less difficult to estimate future prices then? The final Clean Power Plan rule and associated implementation will likely be litigated for years. The UN Climate Change Conference scheduled for December in Paris will have been held but treaty ratification and possible updating of GHG goals every five years are likely to remain. Applicable Federal tax rules after 2016 uncertain. There is no reason to believe the future pricing environment will be crystal clear when B2H comes before you for a CPCN. If you should find the building of B2H to be convenient and necessary, it is inconceivable that you would limit IPCo only to rate-basing their portion of B2H for two years. To impose such a two-year asset life for PURPA is just prejudicial.

COMPETITION CAN ASSIST EFFECTIVE REGULATION

The rate of change in the electric utility industry is high and possibly increasing. With that tide of change, the need for wise regulation rises apace. But Regulation is often ideologically disfavored. Across industries (the banking/financial industry is an excellent example) the regulated have access to vastly

greater resources than their regulators. IPCo has expert witnesses who earn >10x as much as any member of Commission or staff. In a State with ideologically driven resource allocations, Regulators will be hard pressed to match the resources that those they regulate can bring to bear.

This docket does offer the Commission an opportunity to keep harnessing market forces that help ensure appropriate decisions are taken by utilities. It would be foolhardy to voluntarily discard the assistance of market forces in these changing times. The current PURPA contracts have deficiencies. You can and should fix those problems. But you don't need to make the day for those you regulate by killing off their market competition for them.

To paraphrase Margaret Thatcher, this is no time to go wobbly. Trust in the power of markets. Improve the marginal cost estimates if necessary. Address reliability and planning concerns. But don't throw out competition. Competition helps Idahoans. It helps the Commission. And it will help the utilities. Don't wobble under the utilities' pressure. They don't want to fix PURPA. They want to kill PURPA. Stand up to them. In the long run they'll be stronger for it.

A handwritten signature in black ink that reads "Michael Heckler". The signature is written in a cursive, slightly slanted style.

Michael Heckler

3606 N Prospect Way
Garden City, ID 83714