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Attorneys for Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER)	
COMPANY'S PETITION TO MODIFY)	CASE NO. IPC-E-15-01
TERMS AND CONDITIONS OF PURPA)	
PURCHASE AGREEMENTS)	
)	
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IN THE MATTER OF AVISTA)	
CORPORATION'S PETITION TO MODIFY)	CASE NO. AVU-E-15-01
TERMS AND CONDITIONS OF PURPA)	
PURCHASE AGREEMENTS)	
)	
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IN THE MATTER OF ROCKY MOUNTAIN)	
POWER COMPANY'S PETITION TO)	CASE NO. PAC-E-15-03
MODIFY TERMS AND CONDITIONS OF)	
PURPA PURCHASE AGREEMENTS)	STAFF ANSWER TO CLEARWATER
)	PAPER CORPORATION AND J.R.
)	SIMPLOT COMPANY'S JOINT
)	PETITION AND CROSS-PETITION
)	FOR CLARIFICATION
)	

COMES NOW the Staff of the Idaho Public Utilities Commission and files this answer to the Joint Petition and Cross-Petition ("Joint Petition") of Clearwater Paper Corporation and J.R. Simplot Company to clarify Order No. 33222 issued February 6, 2015. On February 25, 2015, the joint petitioners urged the Commission to "clarify" its prior Order. They argue that the scope of this consolidated proceeding should be limited "to only address the appropriate contract

STAFF ANSWER TO CLEARWATER
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length for new intermittent solar and wind projects.” Joint Petition at 3 (emphasis added). They seemingly urge the Commission to restrict the scope of this consolidated docket to only solar and wind projects. For the reasons below, the Commission should deny the Joint Petition.

BACKGROUND

A. Idaho Power’s Initial Petition

On January 30, 2015, Idaho Power Company filed a Petition to reduce the length of its new PURPA contracts from 20 years to five years. *Id.* Idaho Power asserted that the mandatory acquisition of more than 800 megawatts (MW) of PURPA solar capacity over a 20-year period exceeds the operational needs of the Company, places undue risk on customers, and is contrary to the public interest. Petition at 2, 20, 27-34; Order No. 33250 at 3. On pages 1-2 of its Petition, Idaho Power requested that the reduction in the PURPA contract length be “limited to transactions with proposed QF projects that exceed published rate eligibility cap.” Later in its “Prayer for Relief,” the Company characterized its requested relief as a Commission order “directing that the maximum required term for any Idaho Power PURPA [contract] be reduced from 20 years to two years.” Petition at 36. In Order No. 33222, the Commission granted Idaho Power interim relief by temporarily reducing the maximum contract term for Idaho Power’s new PURPA contracts from 20 years to five years while the Commission reviews the issue of contract length in greater detail.

B. Avista and Rocky Mountain Power’s Petitions

On February 27, and March 2, 2015, Avista Corporation and Rocky Mountain Power, respectively, filed separate Petitions seeking similar permanent relief and the same interim relief (i.e., reducing new PURPA contracts from 20 years to five years) granted to Idaho Power in Order No. 33222. In Commission Order No. 33250 issued March 13, 2015, the Commission consolidated the three Petitions. The Commission found that all three utilities raise similar concerns regarding the appropriate length of new PURPA contracts. *Id.* at 6.

The Commission also noted in Order No. 33250 that several parties had filed Petitions to Clarify the scope of the five-year interim relief. *Id.* at 3 n.1. In particular, Intermountain Energy Partners (IEP) and Renewable Energy Coalition (REC) recommended the Commission clarify its Order to reflect that the interim relief (shortening new PURPA contracts to five years) does not apply to new PURPA contracts eligible for published rates. IEP Petition at 1. In Order No. 33253 issued March 18, 2015, the Commission granted the IEP and REC

Petitions. The Commission clarified its Order Nos. 33222 and 33250 by granting five-year interim relief to Idaho Power, Avista and Rocky Mountain for new PURPA contracts in excess of the published rate eligibility cap. Order No. 33253 at 4.

C. Clearwater and Simplot QFs

According to the Joint Petition, Clearwater has four generating facilities that are capable of generating approximately 109 MW of energy. Joint Petition at 3. Staff understands these generators primarily utilize the “black liquor” by-product from the paper production process and wood waste as generating fuels. Clearwater and Avista currently have a five-year non-PURPA contract for the sale of a portion of Clearwater’s generating output to Avista. The current non-PURPA contract terminates under its own terms in 2018 unless Clearwater desires to sell its output to a third-party on 90 days’ notice. The Commission approved this contract in Order No. 32841.

Simplot operates a 15.9 MW cogeneration facility at its fertilizer plant in Pocatello. Petition at 3. Simplot currently operates its cogeneration facility under a one-year PURPA contract recently approved by the Commission on March 4, 2015 in Order No. 33240. The new PURPA contract replaced a prior two-year contract, and the new contract is set to expire on March 1, 2016. *Id.* Simplot states that it intends to negotiate a replacement contract for the Pocatello facility as soon as the Commission approved the one-year contract, i.e., March 4, 2015. *Id.* at 4.

CLEARWATER AND SIMPLOT’S JOINT PETITION

Clearwater and Simplot filed their Joint Petition for Clarification on February 25, 2015. Although Clearwater and Simplot did not oppose the clarification sought by IEP and REC (and subsequently granted by the Commission in Order No. 33253), the Joint Petition sought to further restrict interim relief and the scope of the proceeding to only “wind and solar intermittent resources that exceed the published rate eligibility cap of 100 kW.” Joint Petition at 2. They advance two primary arguments why the Commission should further clarify its Order No. 33222. First, the joint petitioners maintain that the current consolidated process “will likely continue for several months or a year. . . .” Cross-Petition at 4. Consequently, Simplot’s intent to begin negotiating a new contract for its Pocatello facility “will now be limited to a five-year contract term. . . .” *Id.*

Second, the joint petitioners object to the interim relief because “[n]one of Idaho Power’s [underlying] arguments [supporting shorter contracts] apply to base-load facilities utilizing waste heat, biomass, or industrial cogeneration such as” the Clearwater and Simplot facilities. *Id.* at 3. While the petitioners concede that there is ample precedent to single out interim relief for wind and solar QFs, they assert that Idaho Power has not presented sufficient evidence supporting the interim reduction to “the maximum contract length for any type of resource other than wind and solar.” *Id.* at 5.

STAFF ANSWER

1. Interim Relief. Consistent with the parties’ agreement at the prehearing conference held on March 10, 2015, the parties proposed and the Commission adopted a schedule which sets a technical hearing in this proceeding to commence on June 29, 2015. Order No. 33253 at 5. This expeditious schedule complies with the Commission’s direction to the parties to process this docket in a timely manner. Order No. 33222 at 4. Obviously, the petitioners did not have the benefit of the proposed schedule at the time they submitted their Cross-Petition on February 25. Nevertheless, Staff believes that this case will be completed in sufficient time so that the five-year term for interim relief will not be an issue. Moreover, the joint petitioners agreed to the proposed schedule. Finally, the Commission may suspend the proposed effective date of any contract or practice to conduct an inquiry into the same. *Idaho Code* § 61-622(3). Thus, Staff concludes that the petitioners no longer view the schedule in this docket as an impediment to negotiating a new PURPA contract for the Pocatello facility.

2. Objection to the Scope of the Docket. Staff believes that the better place to address the joint petitioners’ argument regarding the scope of relief and whether to shorten contracts for cogen projects is in the technical phase of this case. Idaho Power (and the other two utilities) sought interim relief from all new PURPA contracts in excess of the published rate eligibility cap. Order Nos. 33253 at 4, 33253 at 4. The utilities’ Petitions and supporting testimony generally assert that 20-year contract terms place undue risk on customers for several reasons. First, Idaho Power asserts that its applicable PURPA contracts should mirror its non-PURPA power purchases at terms of less than two years. The Company’s approved risk management policy limits non-PURPA purchases to two years. Idaho Power Petition at 2. The Company does not enter into transactions beyond 18 months pursuant to its required risk management policy. Petition at 30.

Second, Idaho Power and Rocky Mountain have sufficient near-term resources to meet customer demand. *Id.* If all current PURPA projects and the proposed 885 MW of solar is added to the “must-run” and “must-take” generation, Idaho Power expects to exceed its forecasted load by 40% for all hours during 2016 and 2017. Allphin Exh. 6. Rocky Mountain calculates that if all current and proposed Idaho PURPA projects were approved and constructed (465 MW), they would equal 108% of the utility’s average retail load in Idaho and 275% of minimum retail load. Clements Direct at 3, 17. In addition, long-term PURPA contracts with fixed avoided cost rates do not generally allow for rate changes resulting from changes in capacity. For example, PURPA contracts with fixed capacity payment are usually not adjusted to reflect updated IRP data indicating either a surplus or deficiency in a utility’s system capacity. Grow Direct at 2, 11, 17-20; Clements Direct at 4, 12, 21, 28-37 (discussing long-term price risk).

Third, Idaho Power seeks to permanently align its new PURPA contracts with a term similar to its IRP process which is updated every two years. *Id.* For its part, Rocky Mountain seeks a three-year contract to align with its hedging, trading and IRP practices. Clements Direct at 2, 6, 32. Fourth, long-term PURPA contracts transfer the risk of not accurately forecasting long-term avoided cost rates to ratepayers. Petition at 22. The sheer size of Idaho Power’s contractual obligations over 20 years is much greater than its proposed two-year obligation. For example, Idaho Power calculates that the 461 MW of solar projects currently under contract would have a two-year obligation of \$9.2834 million, as compared to a 20-year obligation of approximately \$1.665 billion. Petition at 34. Rocky Mountain maintains that its system-wide PURPA payments in the next ten years will be about \$2.6 billion, with Idaho’s share assumed to be about 6%, or \$156 million. Clements Direct at 21, n.23. In other words, the longer the contract, the greater the financial risk placed upon ratepayers.

Finally, Idaho Power’s witness William Hieronymus testified that the 20-year contract term

is longer than is available in exempt markets and exceeds the length of time that Idaho utilities can hedge contract obligations to buy power that must be disposed of in interexchange markets. The need for shortened contracts also relates to the market risk that customers are being required to take on. [Direct at 15.]

...

Long-term contracts with prices, particularly energy prices, set for long durations should be avoided. PURPA does not require that contracts of any particular length be offered. However, if long-term contracts are offered, the QF gets to choose whether it wants to be paid avoided costs computed at the time of the contract or avoided costs computed at the time of delivery. [Direct at 105.]

He concluded that when a utility signs a long-term contract with a fixed rate, the utility

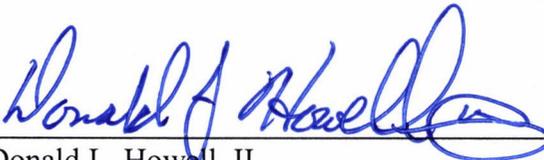
is absorbing the financial risks of the project by guaranteeing a revenue stream that may greatly exceed actual value or, at a minimum, is substantially more certain than the fluctuating value of energy in today's volatile power markets. Project risk is thus shifted from the developer and lenders to the utility and its shareholders and ratepayers. For QFs (and distinct from EWGs), the risk is shifted entirely to ratepayers since, by law, prudently incurred costs of PURPA power must be passed through in rates.

Hieronymus Direct at 106-107. Staff asserts that the utilities have provided sufficient evidence to support the Commission's Orders granting interim relief.

CONCLUSION

In summary, Staff believes that the scheduling of this case will move expeditiously per the schedule recommended by the parties and adopted by the Commission in Order No. 33253. Staff asserts there is substantial evidence to support the Commission's granting an interim relief. Finally, Staff submits that the arguments raised by Clearwater and Simplot regarding the scope of permanent relief are more appropriately addressed in the evidentiary hearing in this case. They will have ample opportunity to fully address their issues rather than limit the scope of the hearing at this juncture with challenge in the Cross-Petition. Consequently, Staff recommends the Commission deny the Joint Petition.

Respectfully submitted this 19th day of March 2015.



Donald L. Howell, II
Deputy Attorney General

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STAFF ANSWER TO CLEARWATER
PAPER AND SIMPLOT'S JOINT
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 19TH DAY OF MARCH 2015, SERVED THE FOREGOING **STAFF ANSWER TO CLEARWATER PAPER CORPORATION AND J.R. SIMPLOT COMPANY'S JOINT PETITION AND CROSS-PETITION FOR CLARIFICATION**, IN CASE NOS. IPC-E-15-01/PAC-E-15-03/AVU-E-15-01, BY E-MAILING A COPY THEREOF TO THE FOLLOWING:

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A handwritten signature in cursive script that reads "Brenda Jarrell". The signature is written in black ink and is positioned above a horizontal line.

SECRETARY