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August 14, 2020

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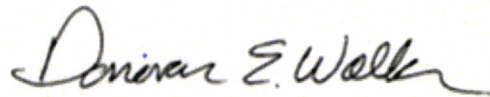
Jan Noriyuki, Secretary
Idaho Public Utilities Commission
11331 W. Chinden Boulevard
Building 8, Suite 201-A
Boise, Idaho 83714

Re: Case No. IPC-E-19-38
Big Wood Canal Company – Sagebrush Hydro Project
Idaho Power Company's Application Regarding Energy Sales Agreement

Dear Ms. Noriyuki:

Attached for electronic filing is Idaho Power Company's Reply Comments on Clarification. Please handle the confidential information in accordance with the Protective Agreement executed in this matter. A redacted copy has also been provided for your convenience. If you have any questions about the attached documents, please do not hesitate to contact me.

Very truly yours,



Donovan Walker

DW:cld

Attachments

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Attorney for Idaho Power Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF IDAHO POWER COMPANY FOR)	CASE NO. IPC-E-19-38
APPROVAL OR REJECTION OF AN)	
ENERGY SALES AGREEMENT WITH BIG)	REPLY COMMENTS OF
WOOD CANAL COMPANY FOR THE SALE)	IDAHO POWER COMPANY ON
AND PURCHASE OF ELECTRIC ENERGY)	CLARIFICATION
FROM THE SAGEBRUSH HYDRO)	
PROJECT.)	REDACTED
)	
)	

Idaho Power Company (“Idaho Power” or “Company”), in accordance with Idaho Public Utilities Commission’s (“IPUC” or “Commission”) Order No. 34727 granting clarification, and in response to the comments filed by Commission Staff (“Staff”), hereby respectfully submits the following Reply Comments on Clarification.

I. INTRODUCTION AND BACKGROUND

On December 9, 2019, Idaho Power filed an application with the Commission for approval or rejection of a replacement Energy Sales Agreement (“ESA”) applicable to the Sagebrush Hydro PURPA Qualifying Facility (“Sagebrush”). The ESA that was executed by the Company and the Big Wood Canal Company (“Parties”) is for a 575 kW hydro

PURPA Qualifying Facility (“QF”). Sagebrush has been operating on the Idaho Power system under a previous QF Firm Energy Sales Agreement (“FESA”) that expired on May 31, 2020. The expired FESA was for a 430 kW hydro QF.

On January 31, 2020, Commission Staff (“Staff”) provided comments that recommends the Sagebrush facility “be granted capacity payments for the full term of the replacement contract, but only for the amount of capacity in the current contract.” Staff Comments, Jan. 31, 2020, p 3. Staff recalculated a blended rate for the Sagebrush contract that removed the capacity payment on the incremental increase (145 kW) in nameplate capacity in the replacement contract over and above the nameplate capacity in the expired FESA. In reply comments, Idaho Power agreed with Staff’s recommendation that only the nameplate capacity in the existing contract is entitled to capacity payments during the Company’s capacity deficiency period, for the full term of the replacement contract, in compliance with past directives of the Commission. Idaho Power also agreed to move forward with whatever rate the Commission determines to be appropriate for the Sagebrush contract. See Reply Comments of Idaho Power Company, p 2.

On May 28, 2020, the Commission issued Order No. 34677, which approved the ESA in this case but directed the Seller be paid for capacity only up to the nameplate capacity of 430 kW that was existing from the expired contract, and that the incremental 145 kW increase in nameplate capacity not be eligible for capacity payments until Idaho Power becomes capacity deficient in 2026.

The Commission finds it reasonable for the Seller to be paid for capacity up to 430 kW for the full term of this renewal ESA. See Order No. 32697 at 21-22. The Commission also finds that the 145 kW increase in capacity for the Sagebrush Facility comes at a time when the Company is not capacity deficient. This “new” capacity is analogous to a new QF whose output and pricing must be evaluated when an executed energy

sales agreement with an electric utility is filed with the Commission for review. Therefore, the Commission finds that the Seller shall not receive capacity payments for the 145 kW increase to the nameplate capacity of the Sagebrush Facility until the Company becomes capacity deficient.

Id., p 5-6. The Commission also rejected Staff's proposed blended rate as well as the netting/offset proposed by Wood Hydro. *Id.*, p 6.

Subsequent to the Commission's order, Idaho Power and Wood Hydro entered into an Amendment of the ESA which was meant to provide the required changes to the approved ESA necessary to provide for payment of a different rate (no capacity) for any hourly delivery of generation in excess of 430 kW, in compliance with the Commission's Order. The Motion also requested that should the Commission desire a different compliant with its Final Order No. 34677, then the Company sought reconsideration and/or clarification of the order for further guidance on compliance. Idaho Power Motion, p 2.

Staff requested that the Commission grant the alternative request by granting reconsideration/clarification so that it could further conduct discovery as to the proposed First Amendment. The Commission granted clarification and additional comment deadlines for review of the First Amendment. Order No. 34727. Staff filed comments on the clarification on August 7, 2020, where Staff recommends further modifications to the ESA and First Amendment. Specifically, Staff recommends that the Parties: (1) Modify the eligibility limit for capacity payments from 430 kW to ■■■ kWh, based on actual maximum hourly generation; (2) Incorporate the method described in the Company's Response to Staff Production Request No. 1 for determining payments outside of the 90/110 performance band into the final ESA; and (3) Correct the rates for the All Hours Energy Price in the Amended ESA to those included as Attachment C to Staff comments.

II. IDAHO POWER REPLY COMMENT ON CLARIFICATION

Idaho Power appreciates Staff's detailed analysis and review of the ESA and First Amendment. Staff has identified concerns shared by Idaho Power with the Surrogate Avoided Resource ("SAR") methodology used to establish published avoided cost prices for QFs, but Idaho Power disagrees that the ESA and First Amendment require further modification - except for the inclusion of Replacement Page 4 of the First Amendment to correct the all-hours rates found in Appendix H-3 as recommended by Staff.

The proposed rates in the First Amendment provide just what the Commission directed in Order No. 34677: it pays full capacity up to 430 kW of nameplate capacity which is the same amount of nameplate capacity from the expired ESA, and treats the incremental increase in nameplate capacity (145 kW) as if it were a contract for new nameplate capacity, where it does not receive a capacity payment until the utility becomes capacity deficient in 2026. Staff's proposal to set some other "limit" at a different kW level based upon historical generation numbers is not consistent with past application of the SAR methodology and how capacity payments are allocated to existing and new QFs in their respective PURPA ESAs.

Eligibility Limit for Capacity Payments

Under the expired FESA, the contracted nameplate capacity of the Sagebrush QF was 430 kW. The Commission's Order No. 34677 approving the replacement ESA for Sagebrush with prices containing capacity value is consistent with Commission Order No. 32697, and with the Commission's approval of more than 25 (twenty-five) previous replacement ESAs. These previous ESAs have included value for capacity, as determined by the SAR methodology, up to the nameplate capacity for the entire period of the replacement ESAs, so long as the nameplate capacity is the same or lower than the nameplate capacity of the QF as identified in the expiring ESA or other relevant

documentation. The difference in this case is that the QF has replaced its generator with one that has a nameplate capacity of 575 kW, or an increase of 145 kW over the previous amount from the expired FESA.

Staff stated, "Staff believes that the parties' method with an eligibility limit set at 430 kW does not meet the Commission's intent and the Seller will likely receive capacity payments for generation from the 145 kW of new incremental capacity prior to the deficiency date." Staff Comments, Page 3. This statement is not sufficiently explained and does not logically follow the facts. The nameplate capacity of the Sagebrush QF is 575 kW. If the QF continues to operate consistent with its historical generation levels that Staff bases its proposed capacity eligibility threshold of [REDACTED] kWh on, it is unlikely that the Project would be paid for capacity even up to the historical nameplate capacity of 430 kW. Further, even if the Project exceeds historical generation levels, in accordance with Order No. 34677, the provisions of the Frist Amendment provide that it cannot be paid for capacity for the increased capacity of 145 kW until the Company's first capacity deficiency that occurs in 2026. The First Amendment as filed does not allow for a capacity payment of generation over 430 kW (the 145 kW of new incremental capacity) prior to the deficiency date of the contract rates.

Idaho Power does not fully understand Staff's concern for not allowing the project to be eligible for capacity value up to the existing nameplate capacity (430 kW) or Staff's rationale for implementing a limit based on historical generation of the QF. Idaho Power does understand Staff's concern that the project may not have historically delivered capacity up to its full nameplate capacity, but the Company has concerns about introducing this new capacity limit based upon historical generation amounts in this case that is not consistent with previous Commission orders approving replacement contracts that allow for a project to be paid for capacity up to its nameplate capacity. Whether Idaho

Power or the Staff agrees with the methodology or not, under the Commission's implementation of PURPA, there is nothing that prevents a hydro QF from delivering 100% of its nameplate capacity during any or all hours, but for the eligibility cap for published avoided cost rates (Article 7.7 of the ESA) and limitations of the motive force, i.e. wind, water, etc., or fuel supplied to the generating unit of the facility. The Company believes this issue is more appropriately addressed in an avoided cost case that takes into consideration the shortcomings of the SAR methodology.

As Staff correctly points out, the SAR methodology provides a fixed capacity value regardless of nameplate capacity. However, nameplate capacity is a direct input to the SAR model and is used to determine when new capacity is assigned capacity value, based on the Company's first capacity deficiency. The SAR methodology also adjusts capacity value based on assumed capacity factors of various resource types. For example, a seasonal hydro facility has a summer capacity factor of 78%. The eligibility limit Staff proposes - including Staff's alternative suggestion of a 10% efficiency adjustment - results in the same capacity factor already applied in the determination of capacity value for a seasonal hydro facility under the SAR methodology.

Staff further suggests that Idaho Power "bases its need for capacity by determining the QF's contribution of capacity primarily based on historical generation from the old, less efficient generating unit." Staff Comments, p 6. This is not entirely correct. As Idaho Power has described in past discovery responses, Idaho Power derives its cogeneration and small power production ("CSPP") forecast from a variety of sources. The most reliable source has generally been historical generation. However, if a QF delivers increased generation, whether from installation of a new, more efficient generating unit or increased motive force, the increased generation is captured in the CSPP forecast and adjustments are made as needed to recognize the increased generation output. The

Company's Integrated Resource Plan ("IRP") is updated every two years and the Company's need to acquire new capacity resources is identified through the IRP process. If a QF's generation increases, then the QF's contribution to Idaho Power's capacity sufficiency period in its load and resource balance is increased by the appropriate amount.

Payments for generation below 90% or above 110%

Staff recommends that the Parties to the ESA should, "Incorporate the method described in the Company's Response to Staff Production Request No. 1 for determining payments outside of the 90/110 performance band into the final ESA." Staff Comments, p 9. Idaho Power does not agree that this is necessary. There is no change required to the language of the ESA or First Amendment in order to properly administer the 90/110 provisions. As described in Idaho Power's Response to Staff Production Request No. 1, the First Amendment to the ESA contains language specific to the determination of the All-Hours Energy Price. Idaho Power provided a description of how the single applicable All-Hours Energy Price can be determined and compared with the Market Energy Reference Price in order to meet the contract provision described in Article 7.2 of the ESA which states, "for all Surplus Energy, Idaho Power shall pay to the Seller the current month's Market Energy Reference Price or the applicable All Hours Energy Price, whichever is lower."

A simpler explanation of how to ensure the proper price is paid for Surplus Energy is to review end-of-month payment amounts calculated using the monthly net generation from the QF multiplied by the applicable month's Market Energy Reference Price compared with the monthly net generation multiplied by the applicable month's All-Hours Energy Price as described in Article 7.6 of the First Amendment. Because the monthly net generation is constant, the lower payment amount for Surplus Energy results in the

lower of the current month's Market Energy Reference Price or the applicable All-Hours Energy Price, thus meeting the contractual provision of Article 7.2 of the ESA. In either case, the components consist of actual generation and Commission approved avoided cost prices and comply with requirements of the ESA and First Amendment.

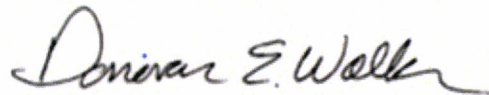
Correction of All Hours Energy Price in the First Amendment

Staff has correctly identified that typographical errors resulted in incorrect All-Hours Energy Prices being listed in the table under Appendix H-3 of the First Amendment. Attached hereto as Attachment 1 is a Replacement Page 4 to the First Amendment, with corrected All-Hours Energy Prices as recommended by Staff.

III. CONCLUSION

Idaho Power believes the First Amendment, as modified by Replacement Page 4, (Attachment 1 hereto) complies with Commission Order No. 34677, approving the ESA and directing that capacity be paid only up to 430 kW of nameplate capacity consistent with the expired contract. This is also consistent with past replacement ESAs for PURPA QFs. Idaho Power respectfully requests that the Commission issue an order approving the First Amendment to the ESA including Replacement Page 4.

Respectfully submitted this 14th day of August 2020.



DONOVAN E. WALKER
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 14th day of August 2020, I served a true and correct copy of the within and foregoing REPLY COMMENTS OF IDAHO POWER COMPANY ON CLARIFICATION upon the following named parties by the method indicated below, and addressed to the following:

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Christy Davenport, Legal Assistant

**BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION
CASE NO. IPC-E-19-38**

IDAHO POWER COMPANY

ATTACHMENT 1

Replacement Page 4 of the
 First Amendment to
 The Energy Sales Agreement Between
 Idaho Power Company and Big Wood Canal Company

Year	Mills/kWh	Mills/kWh	Mills/kWh
2020	21.15	<u>29.6834.53</u>	<u>24.7428.78</u>
2021	21.37	<u>30.0434.89</u>	<u>25.0329.07</u>
2022	22.41	<u>31.7336.58</u>	<u>26.4430.48</u>
2023	24.14	<u>34.5639.41</u>	<u>28.8032.84</u>
2024	26.28	<u>38.0642.91</u>	<u>31.7235.76</u>
2025	28.39	<u>41.5046.35</u>	<u>34.5838.62</u>

1. **Commission Approval.** The obligations of the Parties under this First Amendment are subject to the Commission’s approval of this First Amendment and such approval being upheld on appeal, if any, by a court of competent jurisdiction. The Parties will submit this First Amendment to the IPUC and request approval or rejection in its entirety pursuant to RP 274.

2. **Effect of Amendment.** Except as expressly amended by this First Amendment, the ESA shall remain in full force and effect.

3. **Capitalized Terms.** All capitalized terms used in this First Amendment and not defined herein shall have the same meaning as used in the ESA.

4. **Scope of Amendment.** This First Amendment shall be binding upon and inure to the benefit of the Parties hereto, and their respective heirs, executors, administrators, successors, and assigns, who are obligated to take any action which may be necessary or proper to carry out the purpose and intent thereof.

5. **Authority.** Each Party represents and warrants that (i) it is validly existing and in good standing in the state in which it is organized, (ii) it is the proper party to amend the ESA, and (iii) it has the requisite authority to execute this First Amendment.

6. **Counterparts.** This First Amendment may be executed in any number of counterparts, each of which shall be deemed an original and all of which taken together shall constitute a single instrument.