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Attorney for the Commission Staff

**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 )**  
**WOOD CANAL COMPANY FOR THE SALE )** **COMMENTS OF THE**  
**AND PURCHASE OF ELECTRIC ENERGY )** **COMMISSION STAFF**  
**FROM THE SAGEBRUSH HYDRO )**  
**PROJECT. )**  
**)**

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The Staff of the Idaho Public Utilities Commission submits the following comments regarding the above referenced case.

**BACKGROUND**

On December 9, 2019, Idaho Power Company ("Idaho Power" or "Company") filed an Application seeking approval or rejection of an Energy Sales Agreement ("ESA") between the Company and Big Wood Canal Company ("Big Wood" or "Seller"), for the Sagebrush hydro project ("Facility"). The Facility is a qualifying facility ("QF") near Gooding, Idaho under the Public Utility Regulatory Policies Act of 1978 ("PURPA").

Under the proposed ESA, Big Wood would sell the electric energy generated by the Facility to the Company at published seasonal, non-levelized hydroelectric avoided cost rates as set by Order No. 34350 for a 20-year term.

Big Wood has been selling electricity generated by the Facility to the Company under an energy sales agreement executed on April 1, 1985, that expires on May 31, 2020. The proposed ESA is intended to replace the existing energy sales agreement.

## **STAFF ANALYSIS**

Staff recommends approval of the proposed ESA between Idaho Power and Big Wood conditioned on the parties modifying the avoided cost rates contained in the contract. Staff's review was focused on: 1) the 90/110 rule with at least five-day advanced notice for adjusting Estimated Net Energy Amounts; 2) eligibility for and the amount of capacity payments; and 3) the avoided cost rates.

### 90/110 Rule

Qualifying facilities (QF) provide a monthly estimate of the amount of energy they expect to produce. If the QF delivers more than 110 percent of the estimated amount, energy delivered in excess of 110 percent is priced at the lesser of 85 percent of the market price or the contract price.<sup>1</sup> If the QF delivers less than 90 percent of the estimated amount, total energy delivered is priced at the lesser of 85 percent of the market price or the contract price. Order No. 29632. Staff verified that this provision is included in the ESA.

The ESA adopted a five-day advance notice for adjusting Estimated Net Energy Amounts for purposes of complying with 90/110 firmness requirements. The Commission has approved a five-day revision to monthly generation estimates in previous cases, recognizing that Estimated Net Energy Amounts that are closer to the time of delivery can improve the accuracy of input used by the Company for short-term operational planning. See Case Nos. IPC-E-19-01, IPC-E-19-03, IPC-E-19-04, IPC-E-19-07, and IPC-E-19-12. The Facility has been generating energy since 1985, and the Company has a long generation history for the QF. Staff believes a five-day advance notice is sufficient.

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<sup>1</sup> See Subsection 7.2 of the proposed ESA which defines the Surplus Energy Price as "the current month's Market Energy Reference Price [defined in subsection 1.27 of the ESA] or the applicable All Hours Energy Price [defined in subsection 7.6 of the ESA), whichever is lower."

### Capacity Payment

The nameplate capacity of the Facility in the proposed contract (575 kW) has increased 145 kW from the nameplate capacity in the current authorized contract (430 kW). Because the Company has only reflected the amount of capacity contained in the current contract in its resource planning, Staff believes that the Company has only avoided the cost of the original 430 kW, therefore, Big Wood should only receive immediate capacity payments for the original nameplate capacity amount. Staff proposes that the 145 kW of additional capacity should begin receiving capacity payments only after the Company becomes capacity deficient.

In Order No. 32697, the Commission stated that, “If a QF project is being paid for capacity at the end of the contract term, and the parties are seeking renewal/extension of the contract, the renewal/extension includes immediate payment of capacity.” Although the original contract did not contain a capacity payment, Staff believes the original size of Sagebrush hydro project should be granted capacity payment for the full term of the replacement contract, as was granted by the Commission to the Black Canyon #3 project in Case No. IPC-E-19-04.

Similar to the Black Canyon #3 project, the Sagebrush hydro project in the original contract included avoided cost rates without a capacity payment as determined in Order No. 18190, effective September 1, 1983, because Idaho Power was at that time energy constrained, not capacity constrained. Since about the year 2000, the Company has added significant amounts of capacity such as Danskin (2001 and 2008), Bennett Mountain (2005), and Langley Gulch (2012) gas plants. Because the Company went through those multiple capacity deficiency periods during Sagebrush 35-year contract term and has included the contribution of the capacity amount in the current hydro projects contract in its resource planning during those periods, Staff is confident that the Facility has contributed to meeting the Company’s need for capacity. Thus, Staff agrees with the parties that Big Wood should be granted capacity payments for the full term of the replacement contract, but only for the amount of capacity in the current contract.

Because the project nameplate capacity has increased and the Company has not included the incremental capacity amount contained in the proposed contract in its resource planning up to this point, Staff believes that the incremental amount of capacity should be treated as a new project and receive capacity payments only after the Company becomes capacity deficient in 2026.

Avoided Cost Rates

Due to the different treatments in capacity payments discussed above, Staff proposes a blended avoided cost rate using the weighted-average of two sets of rates based on their respective nameplate capacities: 1) energy payments and immediate capacity payments based on the nameplate capacity (430 kW) in the current contract; and 2) energy payments and capacity payments starting when the Company’s system becomes capacity deficient in 2026 based on the incremental nameplate capacity (145 kW) in the proposed contract. The blended rates were calculated using the following mathematical formula:

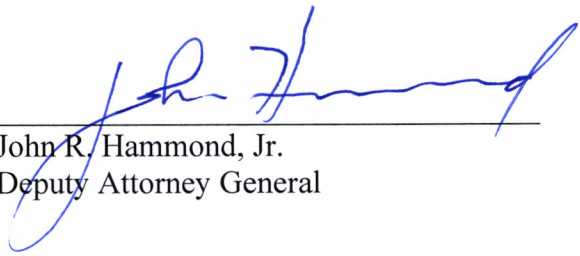
$$\begin{aligned} \text{Blended Rates} &= \left\{ \frac{430 \text{ kW original capacity}}{575 \text{ kW total capacity}} \times \text{Rates with Immediate Capacity Payments} \right\} \\ &+ \left\{ \frac{145 \text{ kW incremental capacity}}{575 \text{ kW total capacity}} \times \text{Rates with Capacity Payments when Deficient} \right\} \end{aligned}$$

Staff calculated the blended avoided cost rates for both seasonal hydro and non-seasonal hydro and included the rates as Attachment A and Attachment B to these comments. Although the Facility is classified as a seasonal hydro project, if the Seller fails to meet seasonal hydro criteria for at least three calendar years, it will result in this Facility being reclassified as a non-seasonal hydro for the remaining term of the contract.

**STAFF RECOMMENDATION**

Staff recommends the Commission approve the ESA conditioned on the parties modifying the avoided cost rates contained in the contract per Staff’s proposal. Staff also recommends Idaho Power’s payments to Big Wood for the purchase of energy generated by the Sagebrush hydro project under the ESA be allowed as prudently incurred expenses for ratemaking purposes.

Respectfully submitted this 31<sup>st</sup> day of January 2020.



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John R. Hammond, Jr.  
Deputy Attorney General

Technical Staff: Yao Yin  
Rachelle Farnsworth

i:umisc:comments/ipce19.38jhyysdrf comments

# ATTACHMENT A

| Year | Seasonal Hydro Base Energy Heavy Load Purchase Price (Mills/kWh) |          |          | Seasonal Hydro Base Energy Light Load Purchase Price (Mills/kWh) |          |          | Seasonal Hydro Base Energy All Hours Energy Price (Mills/kWh) |          |          |
|------|--|----------|----------|--|----------|----------|---|----------|----------|
|      | Season 1   | Season 2 | Season 3 | Season 1   | Season 2 | Season 3 | Season 1  | Season 2 | Season 3 |
| 2020 | 48.76  | 79.61    | 66.35    | 43.41  | 70.88    | 59.07    | 46.38   | 75.73    | 63.11    |
| 2021 | 49.35  | 80.58    | 67.15    | 44.00  | 71.84    | 59.87    | 46.97   | 76.69    | 63.91    |
| 2022 | 50.76  | 82.88    | 69.07    | 45.41  | 74.14    | 61.79    | 48.38   | 78.99    | 65.83    |
| 2023 | 52.88  | 86.33    | 71.94    | 47.53  | 77.60    | 64.66    | 50.50   | 82.45    | 68.71    |
| 2024 | 55.41  | 90.46    | 75.39    | 50.06  | 81.73    | 68.11    | 53.03   | 86.58    | 72.15    |
| 2025 | 57.91  | 94.54    | 78.78    | 52.55  | 85.80    | 71.50    | 55.52   | 90.65    | 75.54    |
| 2026 | 69.00  | 112.66   | 93.88    | 63.65  | 103.92   | 86.60    | 66.62   | 108.77   | 90.64    |
| 2027 | 70.24  | 114.68   | 95.57    | 64.89  | 105.95   | 88.29    | 67.86   | 110.79   | 92.33    |
| 2028 | 72.21  | 117.89   | 98.24    | 66.86  | 109.15   | 90.96    | 69.83   | 114.00   | 95.00    |
| 2029 | 73.41  | 119.86   | 99.88    | 68.06  | 111.12   | 92.60    | 71.03   | 115.97   | 96.64    |
| 2030 | 74.98  | 122.42   | 102.01   | 69.63  | 113.68   | 94.73    | 72.60   | 118.53   | 98.77    |
| 2031 | 76.32  | 124.61   | 103.84   | 70.97  | 115.88   | 96.56    | 73.94   | 120.72   | 100.60   |
| 2032 | 78.72  | 128.52   | 107.1    | 73.37  | 119.79   | 99.82    | 76.34   | 124.64   | 103.86   |
| 2033 | 80.63  | 131.64   | 109.7    | 75.28  | 122.91   | 102.42   | 78.25   | 127.76   | 106.46   |
| 2034 | 82.52  | 134.72   | 112.27   | 77.17  | 125.99   | 104.99   | 80.14   | 130.84   | 109.03   |
| 2035 | 84.35  | 137.72   | 114.77   | 79.00  | 128.98   | 107.49   | 81.97   | 133.83   | 111.53   |
| 2036 | 86.40  | 141.06   | 117.55   | 81.05  | 132.32   | 110.27   | 84.02   | 137.17   | 114.31   |
| 2037 | 88.05  | 143.76   | 119.8    | 82.70  | 135.02   | 112.52   | 85.67   | 139.87   | 116.56   |
| 2038 | 89.80  | 146.61   | 122.18   | 84.45  | 137.88   | 114.90   | 87.42   | 142.72   | 118.94   |
| 2039 | 91.65  | 149.64   | 124.7    | 86.30  | 140.90   | 117.42   | 89.27   | 145.75   | 121.46   |
| 2040 | 94.07  | 153.59   | 127.99   | 88.72  | 144.86   | 120.71   | 91.69   | 149.70   | 124.75   |

# ATTACHMENT B

| Year | Non-seasonal Hydro Base Energy Heavy Load Purchase Price (Mills/kWh) |          |          | Non-seasonal Hydro Base Energy Light Load Purchase Price (Mills/kWh) |          |          | Non-seasonal Hydro Base Energy All Hours Energy Price (Mills/kWh) |          |          |
|------|--|----------|----------|--|----------|----------|---|----------|----------|
|      | Season 1   | Season 2 | Season 3 | Season 1   | Season 2 | Season 3 | Season 1  | Season 2 | Season 3 |
| 2020 | 38.62  | 63.05    | 52.54    | 33.27  | 54.31    | 45.26    | 36.23   | 59.16    | 49.30    |
| 2021 | 39.06  | 63.77    | 53.14    | 33.71  | 55.03    | 45.86    | 36.68   | 59.88    | 49.90    |
| 2022 | 40.32  | 65.82    | 54.85    | 34.97  | 57.09    | 47.57    | 37.94   | 61.94    | 51.61    |
| 2023 | 42.28  | 69.03    | 57.52    | 36.93  | 60.29    | 50.24    | 39.90   | 65.14    | 54.28    |
| 2024 | 44.65  | 72.90    | 60.75    | 39.30  | 64.17    | 53.47    | 42.27   | 69.02    | 57.51    |
| 2025 | 46.99  | 76.72    | 63.93    | 41.64  | 67.98    | 56.65    | 44.61   | 72.83    | 60.69    |
| 2026 | 54.20  | 88.48    | 73.74    | 48.85  | 79.75    | 66.46    | 51.82   | 84.60    | 70.50    |
| 2027 | 55.22  | 90.15    | 75.13    | 49.87  | 81.41    | 67.85    | 52.84   | 86.26    | 71.89    |
| 2028 | 56.96  | 93.00    | 77.50    | 51.61  | 84.26    | 70.22    | 54.58   | 89.11    | 74.26    |
| 2029 | 57.94  | 94.60    | 78.83    | 52.59  | 85.87    | 71.55    | 55.56   | 90.71    | 75.60    |
| 2030 | 59.28  | 96.79    | 80.66    | 53.93  | 88.05    | 73.38    | 56.90   | 92.90    | 77.42    |
| 2031 | 60.40  | 98.61    | 82.17    | 55.05  | 89.87    | 74.89    | 58.02   | 94.72    | 78.93    |
| 2032 | 62.56  | 102.14   | 85.11    | 57.21  | 93.40    | 77.83    | 60.18   | 98.25    | 81.87    |
| 2033 | 64.23  | 104.87   | 87.39    | 58.88  | 96.13    | 80.11    | 61.85   | 100.98   | 84.15    |
| 2034 | 65.88  | 107.56   | 89.63    | 60.53  | 98.82    | 82.35    | 63.50   | 103.67   | 86.39    |
| 2035 | 67.47  | 110.15   | 91.79    | 62.12  | 101.42   | 84.51    | 65.09   | 106.27   | 88.55    |
| 2036 | 69.27  | 113.09   | 94.24    | 63.92  | 104.35   | 86.96    | 66.88   | 109.20   | 91.00    |
| 2037 | 70.67  | 115.37   | 96.15    | 65.32  | 106.64   | 88.87    | 68.29   | 111.49   | 92.91    |
| 2038 | 72.16  | 117.81   | 98.18    | 66.81  | 109.08   | 90.90    | 69.78   | 113.92   | 94.94    |
| 2039 | 73.75  | 120.41   | 100.34   | 68.40  | 111.67   | 93.06    | 71.37   | 116.52   | 97.10    |
| 2040 | 75.91  | 123.94   | 103.28   | 70.56  | 115.20   | 96.00    | 73.53   | 120.05   | 100.04   |

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 31<sup>st</sup> DAY OF JANUARY 2020, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-19-38, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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