

MATT HUNTER
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0318
IDAHO BAR NO. 10655

Street Address for Express Mail:
11331 W CHINDEN BLVD, BLDG 8, SUITE 201-A
BOISE, ID 83714

Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER)	
COMPANY’S APPLICATION FOR APPROVAL)	CASE NO. IPC-E-20-16
OR REJECTION OF AN ENERGY SALES)	
AGREEMENT WITH THE CITY OF HAILEY)	
FOR THE SALE AND PURCHASE OF)	COMMENTS OF THE
ELECTRIC ENERGY FROM THE HAILEY)	COMMISSION STAFF
<u>CSPP HYDRO PROJECT</u>)	

The Staff of the Idaho Public Utilities Commission comments as follows on Idaho Power Company’s Application.

BACKGROUND

On March 17, 2020, Idaho Power Company (“Idaho Power”) filed an Application requesting consideration of an Energy Sales Agreement (“ESA” or “Agreement”) with the City of Hailey for energy generated by the Hailey CSPP Hydro Project (“Facility”). The Facility is a qualifying facility (“QF”) under the Public Utility Regulatory Policies Act of 1978. The Facility has a scheduled First Energy Date under the ESA of June 25, 2020.

The Facility is a 37.3-kilowatt nameplate capacity hydro facility in Hailey, Idaho. The Agreement contains published non-seasonal, non-levelized avoided cost rates for a 5-year term. The Facility has been delivering energy to Idaho Power under a June 14, 1985 energy sales agreement that expires June 24, 2020.

STAFF ANALYSIS

Staff recommends approval of the proposed ESA between Idaho Power and the City of Hailey. Staff's justification is based upon its review of the ESA, which 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) verification of non-seasonal hydro avoided cost rates.

90/110 Rule

Qualifying facilities 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. 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 advanced 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, e.g.*, 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 the mid-1980s, and the Company has a long generation history for the QF. Staff believes a five-day advanced notice is sufficient.

Capacity Payment

Staff recommends that the Hailey CSPP Hydro Project be eligible for immediate capacity payments in its renewal contract based on the current 37.3 kW nameplate capacity of the Facility. 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 Facility 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 Facility in its 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 the Facility's 35-year contract term, Staff is confident that the project has contributed to meeting the Company's need for capacity.

Staff notes that the total nameplate capacity in the renewal ESA is 37.3 kW. This amount is 40 percent less than the 62 kW nameplate capacity stated in the original contract that became effective in 1985. Staff learned that the original 62 kW generator was replaced with a smaller 37.3 kW generator in 2016. Because the updated amount is less than the original amount and the Company has included the project for purposes of resource planning as discussed earlier, the Company should have avoided building new capacity by at least the smaller amount. Thus, Staff believes the Facility should be granted capacity payments for all generation produced under the updated nameplate capacity. Had the nameplate capacity increased from the last approved size, instead of decreasing, Staff believes that the incremental amount may not have been eligible for capacity payments until the Company becomes capacity deficient in the future. With the decrease in nameplate capacity, Staff believes the Facility should be granted capacity payments based on the nameplate capacity proposed in the Agreement for the full term of the replacement contract.

After discovering that the size of the project was reduced in 2016 during the term of the original contract, Staff verified whether the change might have adversely affected the terms of the original contract and should have triggered action from Idaho Power. In this case, Staff did not find any cause for action. However, Staff notes the following provision in Appendix B of the ESA would apply if the Facility's nameplate capacity again changed:

Any modifications to the Facility, including but not limited to the generator or turbine, that (1) increases or decreases the Facility Nameplate Capacity, or (2) changes the Qualifying Facility Category, or (3) changes the Primary Energy Source or (4) changes to the generator fuel and subsequently the Fueled Rate or Non-Fueled Rate, will require a review of the Agreement terms, conditions and pricing and Idaho Power, at its sole determination, may adjust the pricing or terminate the Agreement. If the Agreement is terminated because of said modifications, the Seller will be responsible for any Termination Damages.

Staff believes that this provision in future agreements will prevent inaccurate rates and violations of Commission orders or Federal Energy Regulatory Commission (FERC) rules due to changes to the facility.

This issue is not unique to Idaho Power and can occur with Idaho's other two electric utilities. Staff verified that recent Avista and PacifiCorp PURPA contracts authorized by the Commission¹ do not include a similar provision. Staff plans to work with the other two utilities to include similar language in their future contracts.


Verification of Non-Seasonal Hydro Avoided Cost Rates

Staff reviewed the non-seasonal hydro avoided cost rates contained in the Agreement and verified that the proposed rates are correct and comply with existing orders.

STAFF RECOMMENDATIONS

Staff recommends the Commission approve the ESA. Staff also recommends the Commission declare Idaho Power's payments to the City of Hailey for the purchase of energy generated by the Hailey CSPP Hydro Project under the ESA be allowed as prudently incurred expenses for ratemaking purposes.

Respectfully submitted this *14th* day of May 2020.



Matt Hunter
Deputy Attorney General

Technical Staff: Yao Yin
Rachelle Farnsworth

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¹ For example, Case No. PAC-E-17-14 (City of Preston) and Case No. AVU-E-19-16 (Stimson Lumber).

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 14th DAY OF MAY 2020, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-20-16, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

DONOVAN E WALKER
REGULATORY DOCKETS
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-MAIL: dwalker@idahopower.com
dockets@idahopower.com

ENERGY CONTRACTS
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-MAIL: energycontracts@idahopower.com

BRIAN YEAGER
PUBLIC WORKS DIR
CITY OF HAILEY
115 S MAIN ST
HAILEY ID 83333
E-MAIL: brian.yeager@haileycityhall.org

/s/ Reyna Quintero
SECRETARY