

JOHN R. HAMMOND, JR.
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0357
IDAHO BAR NO. 5470

RECEIVED
2021 JUL -6 PM 4:07
IDAHO PUBLIC
UTILITIES COMMISSION

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

IDAHO POWER COMPANY'S)	
APPLICATION TO UPDATE THE GAS)	CASE NO. IPC-E-21-15
FORECAST IN THE INCREMENTAL COST)	
INTEGRATED RESOURCE PLAN AVOIDED)	REDACTED COMMENTS OF
COST MODEL)	THE COMMISSION STAFF
)	
)	

STAFF OF the Idaho Public Utilities Commission, by and through its Attorney of record, John R. Hammond, Jr., Deputy Attorney General, submits the following comments.

BACKGROUND

On May 13, 2021, Idaho Power Company (the "Company") applied to update the natural gas forecast that is utilized in the Incremental Cost Integrated Resource Plan ("ICIRP") avoided cost method. Avoided cost rates determined by the ICIRP method are available to qualifying facilities ("QFs") able to generate above the resource-specific project eligibility cap for published avoided cost rates under Idaho's implementation of the Public Utility Regulatory Policies Act of 1978 ("PURPA").

The annual update of the gas and load forecast for the ICIRP method in 2020 in IPC-E-20-35 was based upon the gas forecast used in the 2017 Integrated Resource Plan ("IRP"), which was the U.S. Energy Information Administration's ("EIA") Henry Hub High Oil and Gas Resource

and Technology forecast. Later, the Second Amended 2019 IRP was acknowledged on March 16, 2021, in Order No. 34959, used a new gas forecast provided to the Company by S&P Global Platts (“Platts”). However, the Second Amended 2019 IRP used the 2018 Platts forecast. The Company in the Application of this case requests the use of the most up-to-date information available, which is the 2021 Platts forecast published March 4, 2021.

The Company states the use of this forecast indicates an approximate 3% overall decrease in the average annual natural gas forecast prices over the remaining period in comparison to the 2018 natural gas price forecast from the acknowledged 2019 IRP. The Company represents that although the updated Platts’ natural gas forecast shows a slight decrease overall, it contains yearly increases in 2021-2023 and 2039-2040.

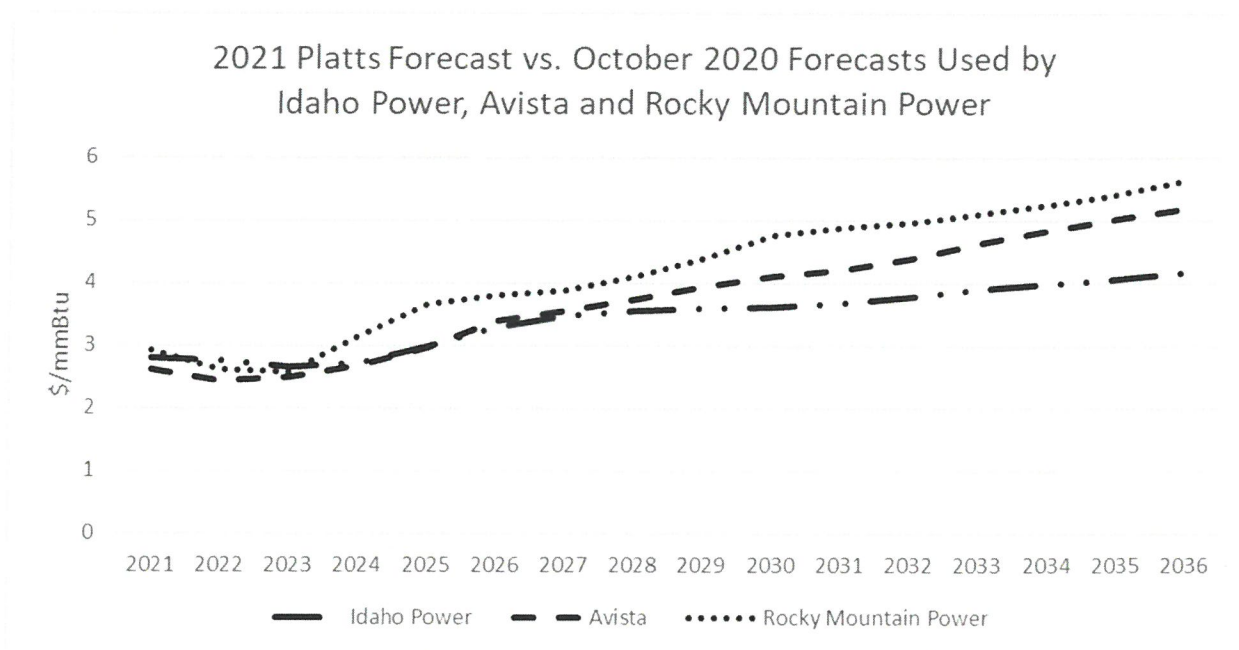
STAFF ANALYSIS

Staff believes that the 2021 Platts natural gas forecast that the Company is proposing to use in this case for determining avoided cost rates under the ICIRP method in future PURPA contracts is reasonable. Staff’s conclusion is based on its analysis of Platt’s forecast compared to other Idaho utility natural gas forecasts, considering short-term market fundamentals occurring in the market, and an assessment of Platts as the source of the forecast compared to the previous EIA source used by the Company. After considering these reasons, Staff recommends that the Commission approve the use of the 2021 Platts forecast for determining avoided costs to be used in the ICIRP avoided cost method.

Comparison of Gas Forecasts Used by Three Utilities

Staff has reviewed the 2021 Platts forecast data and believes the forecast is reasonable compared to the 2020 forecasts from the three Idaho utilities. As can be seen in Figure No. 1 below, the 2021 Platts forecast is like the October 2020 forecasts used by Idaho Power, Avista, and Rocky Mountain Power over the long run. However, the 2021 Platts forecast differs from these 2020 forecasts by projecting higher natural gas prices in the first few years of the forecast time horizon. Staff believes that the higher natural gas prices in the short-term coincide with market conditions that have changed since the three utilities’ forecasts were published in October of 2020.

Figure No. 1. 2021 Platts Forecast vs. October 2020 Forecasts from Three Utilities



The increases in natural gas prices in the short term are driven by a decrease in supply of and an increase in demand for natural gas. Multiple sources¹ have shown that the reduced gas supply is caused primarily by recent historic low oil and natural gas prices. Because of low prices, producers have lowered the number of rigs deployed for production, reducing both direct and associated natural gas production. According to the same sources, factors increasing the demand of natural gas include competition for natural gas due to the demand for LNG exports and increased natural gas-fired electricity production.

For purposes of this filing, which is to determine the natural gas forecast used to in the ICIRP method, the near-term forecast is most critical. This is because the contracts that use the ICIRP method for determining avoided cost rates are limited to two-year term lengths.

Because the overall Platts forecast is comparable to prior utility forecasts and includes modifications based on current and near-term market conditions, Staff believes that the 2021 Platts forecast is reasonable to be used in the ICIRP avoided cost method.

¹ See EIA's Short-term Energy Outlook at <https://www.eia.gov/outlooks/steo/> and S&P Global Platts' "Henry Hub spot gas price hits 15-week high as US market fundamentals tighten" at <https://www.spglobal.com/platts/en/market-insights/latest-news/natural-gas/061021-henry-hub-spot-gas-price-hits-15-week-high-as-us-market-fundamentals-tighten>

Platts Forecast vs. EIA Forecast

The Company changed the source of its natural gas forecast from EIA to Platts, both in the 2019 IRP and in this filing. In Order No. 33957, the Commission stated, “We further find it appropriate, going forward, that if the Company changes its EIA base forecast, it should provide a reasonable basis for such change.” Staff supports the Company’s use of the Platts forecast based on justifications summarized below.

First, the Company provided a comparison that was conducted as part of the 2019 IRP of market forward prices and the 2018 EIA Reference Case and the 2018 EIA High Oil and Gas Resource and Technology Case forecasts in Response to Staff’s Production Request No. 1. Because of differences between forward prices and EIA’s forecasts shown in Figure No. 2, the Company started exploring other third-party forecasts (shown in Figure No. 3) and chose the Platts forecast for the 2019 IRP, because “Platt’s forecast appeared to more closely align with the first several years of the forward market and then was in range with the others by 2026.” *See* Response to Staff’s Production Request No. 1.

Figure No. 2 Henry Hub Natural Gas Forecast as of October 2018

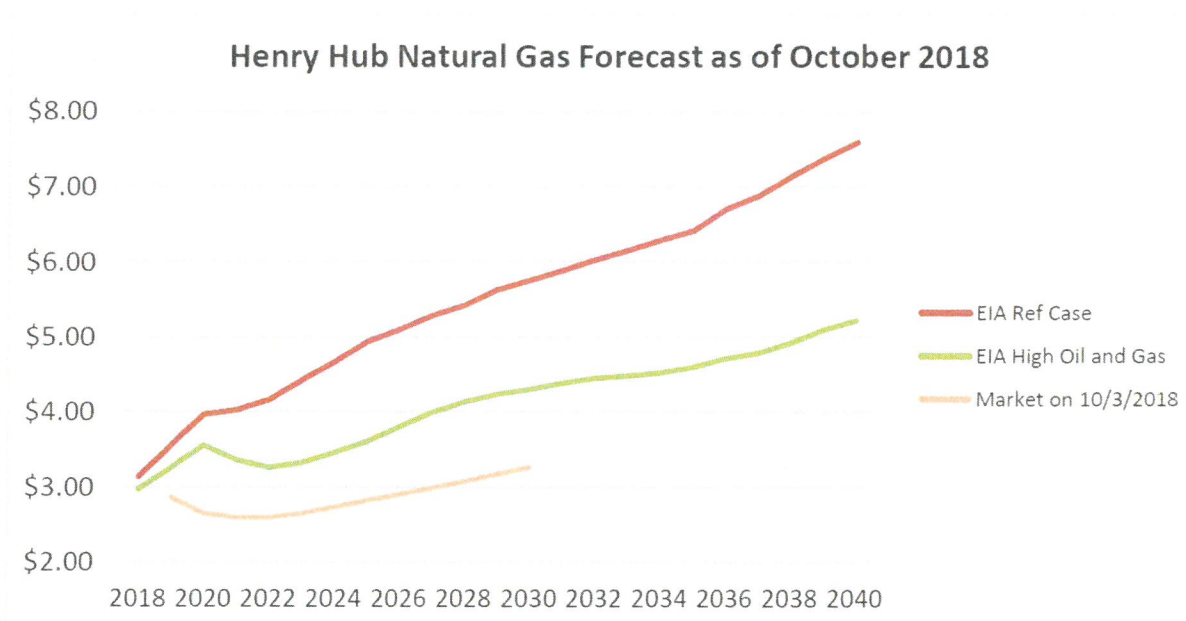
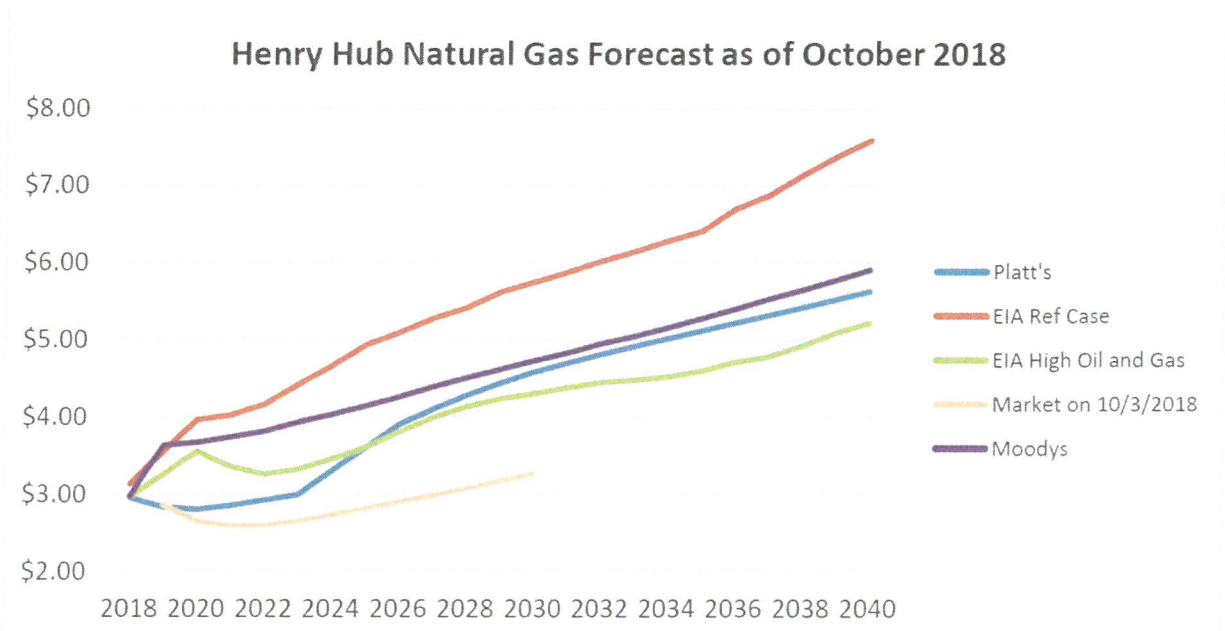


Figure No. 3 Platt's Forecast and Moody's Forecast



Second, the Company stated, “Because the first few years of forwards are traded actively, Idaho Power felt that what the EIA was forecasting was not accurate, at least for those first few years.” *Id.* Staff agrees. The only EIA forecast that reasonably aligns to forward market prices is EIA’s High Oil and Gas Case forecast, which the Company chose to use in their 2017 IRP (*See* 2017 IRP, p. 84). However, Staff believes that the input assumptions EIA uses to develop their High Oil and Gas Case forecast are not realistic and it would be improper to use a forecast with unrealistic input assumptions in order to obtain a reasonable result.²

² In the High Oil and Gas Resource and Technology case, the estimated ultimate recovery per well is assumed to be 50% higher than in the Reference case for tight oil, tight gas, and shale gas in the Lower 48 States; undiscovered resources in Alaska; offshore Lower 48 states. Rates of technological improvement that reduce costs and increase productivity in the United States are also 50% higher than in the Reference case. See Page 6 of Annual Energy Outlook 2021: Case Descriptions at https://www.eia.gov/outlooks/aeo/assumptions/pdf/case_descriptions_2021.pdf

Impacts of the New Forecast

For the next five years from 2021 through 2025, the 2021 Platts forecast is [REDACTED] higher than the 2020 EIA forecast currently used in the ICIRP avoided cost method, which will likely result in higher avoided cost rates. The forecast will be updated in October, using the latest information available at that time.

STAFF RECOMMENDATION

Based on its analysis, Staff recommends approval of the 2021 Platts forecast contained in Confidential Attachment No. 1 of the Application to be used in the ICIRP method.

Respectfully submitted this  day of July 2021.



John R. Hammond, Jr.
Deputy Attorney General


Technical Staff: Yao Yin

i:\umisc:comments\ipce21.15jhyy comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 6TH DAY OF JULY 2021, SERVED THE FOREGOING **REDACTED COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-21-15, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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



SECRETARY