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IDAHO PUBLIC
UTILITIES COMMISSION

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October 10, 2023

VIA ELECTRONIC FILING

Jan Noriyuki, Secretary
Idaho Public Utilities Commission
11331 W. Chinden Blvd., Bldg 8,
Suite 201-A (83714)
PO Box 83720
Boise, Idaho 83720-0074

Re: Case No. IPC-E-23-20
In the Matter of Idaho Power Company's Application for a Certificate of Public Convenience and Necessity to Acquire Resources to be Online in Both 2024 and 2025 and for Approval of an Energy Storage Agreement with Kuna Bess, LLC

Dear Ms. Noriyuki:

Attached for electronic filing please find Idaho Power Company's Reply Comments in the above matter.

Please feel free to contact me directly with any questions you might have about this filing.

Very truly yours,

Donovan E. Walker

DEW:cd
Enclosures

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Attorney for Idaho Power Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR A CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY TO ACQUIRE RESOURCES TO BE ONLINE IN BOTH 2024 AND 2025 AND FOR APPROVAL OF AN ENERGY STORAGE AGREEMENT WITH KUNDA BESS LLC	)	CASE NO. IPC-E-23-20 IDAHO POWER COMPANY'S REPLY COMMENTS

Idaho Power Company ("Idaho Power" or "Company") respectfully submits these Reply Comments in response to the Comments filed by the Idaho Public Utilities Commission ("Commission") Staff ("Staff"), on September 26, 2023. Idaho Power appreciates Commission Staff's support of an order: (1) granting the Company a Certificate of Public Convenience and Necessity ("CPCN") to acquire 24 megawatts ("MW") and 77 MW of dispatchable energy storage necessary to meet the identified capacity deficiencies in 2024 and 2025, respectively; (2) approving the 20-year Energy Storage Agreement ("ESA") between Idaho Power and Kuna BESS LLC ("Kuna BESS"), with modifications, and; (3) acknowledging the lease accounting necessary to facilitate

the transaction and that the resulting expenses associated with the ESA are prudently incurred for ratemaking purposes. In these Reply Comments, Idaho Power will respond to concerns raised by Commission Staff regarding the competitive resource procurement process used to evaluate various resources that competed to provide a capacity resource to help meet Idaho Power's peak capacity needs in 2024 and 2025 and the resulting least-cost, least-risk capacity resources selected through that fair and competitive Request for Proposal ("RFP") process.

I. BACKGROUND

1. Idaho Power has been generally resource-sufficient since the addition of the Langley Gulch natural-gas fired power plant almost a decade ago until recently. The load and resource balance from the Second Amended 2019 Integrated Resource Plan did not show a capacity deficiency occurring until the summer of 2028. However, several converging factors outside of the Company's control, including limited third-party transmission capacity, load growth, and a decline in the peak serving effectiveness of certain supply-side and demand-side resources caused Idaho Power to rapidly move to a near-term capacity deficiency starting in 2023. These dynamic circumstances led the Company to immediately file a request for a CPCN to acquire resources to be online in 2023[1], as well as a CPCN to acquire resources to be online in 2024[2], and Idaho Power expects to acquire additional resources each year thereafter through (at least) 2027.[3]

2. Under Idaho law, Idaho Power has an obligation to provide adequate, efficient, just, and reasonable service on a nondiscriminatory basis to all those that request it within its service area. Idaho Power has experienced and expects sustained

[1] Case No. IPC-E-22-13
[2] Case No. IPC-E-23-05
[3] *See*, OPUC Case No. UM 2255, *In the Matter of Idaho Power Company, Application for Approval of 2026 All-Source Request for Proposals to Meet 2026 Capacity Resource Need.*

load growth, thereby requiring the addition of new resources. To meet its obligation to reliably serve customer load and fill the capacity deficiencies identified in 2024 and 2025, the Company conducted a competitive solicitation through a Request for Proposals ("RFP") seeking to acquire energy and capacity to help meet Idaho Power's previously identified capacity needs of 85 MW to be online by June of 2024 and an incremental 115 MW in 2025 ("2022 RFP"). The procurement process resulted in the acquisition of least-cost, least-risk resources necessary to fill the identified capacity deficiencies.

3. The competitive RFP process resulted in a least-cost, least-risk selection of two projects to meet the 2025 capacity deficiency: (1) a 150 MW energy storage project, consisting of a 20-year ESA for a 150 MW battery storage facility and (2) 77 MW comprised of an Idaho Power-owned Battery Energy Storage System ("BESS"). In addition, the fluid load and resource balance identified an additional need for capacity in 2024, requiring the additional 24 MW of Idaho Power-owned battery storage. The ESA is a slightly different kind of agreement than those the Company has previously presented to the Commission. The ESA acts as a type of lease through which Kuna BESS will develop, design, construct, own, and operate the battery storage system and, in accordance with the terms of the agreement, Idaho Power will supply the charging energy for the system and has the exclusive right to dispatch and use the charging and discharging energy in exchange for a monthly payment. However, the terms of the ESA, including pricing, security, and other terms of service, are generally consistent with industry standard terms included in other Commission-approved procurements and energy sales agreements of the Company.

4. At the time the 2022 RFP[4] proposals were being evaluated, the 2025 capacity deficiency had increased. To account for the increased 2025 capacity deficiency, Idaho Power also selected the next most cost-effective resource to meet the 2025 capacity deficiency, the Idaho Power benchmark resource, a 77 MW battery storage facility at the Happy Valley station. Further, during preparation of the 2023 IRP, as the load and resource balance was refreshed, it was determined that a capacity shortfall still existed in 2024. Idaho Power can address the 2024 capacity deficiency economically and efficiently by adding 24 MW of battery storage at the Hemingway substation, the site for which 80 MW of battery storage was installed to meet the 2023 capacity deficiency. The Company has executed a Battery Energy Supply Agreement for the 24 MW battery storage with Powin Energy Corporation ("Powin"), similar to previous agreements executed with Powin. Idaho Power's fair and competitive resource acquisition procurement process resulted in the least-cost, least-risk procurement of 101 MW of energy storage capable of being operational to meet both the 2024 and 2025 capacity deficiencies.

II. IDAHO POWER'S REPLY

A. The Commission Should Adopt Staff's Recommendation to Grant the Company a CPCN, Declare the Expenses Associated with the ESA are Prudent, and Acknowledge that Lease Accounting is Necessary to Facilitate the ESA.

5. In order to comply with its continuing obligations to serve customers, the Company must at times acquire additional resources to meet the identified capacity deficits on its system when the need arises, and potentially outside of the formalized IRP process. Given the short turn-around to construct a resource to meet deficits identified in

[4] The 2022 RFP sought proposals for resources to be online by summer of 2024 and 2025. With Order No. 35900 in Case No. IPC-E-23-05, the Company received approval of a Power Purchase Agreement with Franklin Solar LLC for 100 MW of solar generation as well as a CPCN for 72 MW of dispatchable energy storage to be online in 2024.

2023, coupled with global supply-chain disruptions stemming from the COVID-19 health crisis and other events, it was imperative that the Company move forward quickly on the resource procurement process. Idaho Power performed a quantitative and qualitative evaluation with an objective scoring methodology to reasonably evaluate the price and non-price attributes of each project proposal submitted through the RFP process. The request for a CPCN to acquire 101 MW of dispatchable energy storage is the result of those efforts.

6. Idaho Power appreciates Staff's thorough analysis of the Company's request in this case and their recommended "[a]pproval of the CPCN to acquire 24 MW and 77 MW of BESS capacity to meet the 2024 and 2025 capacity deficiencies, respectively."[5] Staff performed an extensive review in this proceeding of the capacity deficiencies identified at different times during the RFP process, evidence of the fluidity of those deficiencies during the near-term resource decision making phase, agreeing with Idaho Power's inputs and assumptions used in the Reliability & Capacity Assessment Tool to determine the amount of the 2024 and 2025 deficits and believes the amounts are reasonable.[6] Further, Staff concluded that the "additional capacity deficiency in 2024 that drove the need for the 24 MW BESS is justified"[7] and "that the capacity deficiency in 2025 that drove the need for the 77 MW BESS and the 150 MW ESA is justified."[8]

7. Kuna BESS will develop, design, construct, own, and operate the BESS and, in accordance with the terms of the ESA, Idaho Power will supply the charging energy for the system and has the exclusive right to dispatch and use the charging and

[5] Staff Comments, pg. 4.
[6] Staff Comments, pgs. 6 and 7.
[7] Staff Comments, pg. 5.
[8] Staff Comments, pg. 6.

discharging energy in exchange for a monthly payment. Staff reviewed the terms and provisions of the 20-year ESA between the Company and Kuna BESS as well as the associated lease accounting treatment necessary to facilitate the transaction of the ESA requested by Idaho Power, finding that lease accounting is the "appropriate way to account for"[9] the transaction and expenses associated with the ESA. Additionally, Staff recommends "[d]eclaration that the expenses associated with the ESA, as proposed, are prudently incurred for ratemaking purposes."[10] In their review of Section 19.3 of the ESA, Staff suggests an emphasis to the significance of Commission approval and that the section be "updated to reflect the need for Commission approval before any modification becomes valid."[11] Idaho Power supports Staff's proposed addition to Section 19.3 of the ESA and concurrent with filing of the Company's Reply Comments is submitting for approval with the Commission the First Amendment to the Energy Storage Agreement Between Kuna BESS, LLC and Idaho Power Company ("First Amendment") that reflects Staff's proposed addition. The First Amendment is submitted herewith as Attachment 1. Idaho Power respectfully requests Commission Approval of the First Amendment, intended to meet Staff's recommended condition of approval, along with approval of the ESA.

B. Idaho Power Completed a Robust Competitive Resource Procurement Process for Identifying the Least-Cost, Least-Risk Resource Acquisitions

8. The Company's rapid change in the capacity deficiency was the result of several converging factors, including limited third-party transmission capacity, load growth, and a decline in the peak serving effectiveness of certain supply-side and

[9] Staff Comments, pg. 14.
[10] Staff Comments, pg. 15.
[11] Staff Comments, pg. 13.

demand-side resources. In order for Idaho Power to meet its obligation to reliably serve customer load in a least-cost, least-risk manner, a competitive solicitation for the acquisition of resources was conducted through an RFP. This competitive RFP process allowed the Company to access the broader peak capacity and energy market to obtain the best resources for Idaho Power's customers, providing access to a spectrum of potential resources and developers. Staff "believes the Company generally conducted a fair and transparent resource selection process."[12] However, Staff believes there were issues with the resource selection process, indicating "the bid pool could have been larger and there could have been additional final shortlisted projects with lower costs."[13]

9. The formal request for competitive proposals for the acquisition of electric energy and capacity delivered from electric resources did require that the resources employ certain qualifying technologies under varying ownership arrangements as those were the products that would have the most realistic potential to be in-service to meet the capacity deficiencies identified in 2024 and 2025. Staff believes the limited size of the bid pool resulting from the restricted ownership and resource types prevented Idaho Power from receiving potential additional bids. In support of their concerns, Staff indicates that although an addendum to the RFP was issued on April 13, 2022, allowing for respondent ownership of a standalone BESS, Solar + BESS or Wind + BESS, respondent ownership projects were still not allowed. Idaho Power would like to clarify that although not specifically identified in Addendum No. 8 to the RFP, the Company *did* allow for the PPA-based storage component of the Solar + BESS and Wind + BESS resource types to be a BESS structure. In fact, Project Nos. 5, 6, 9, 10, 11, 12, 22, 24, and 30 identified in

[12] Staff Comments, pg. 7.
[13] *Id.*

Confidential Exhibit No. 5 included a Solar + BESS or Wind + Solar + BESS Battery Storage Agreement ("BSA") proposal to meet the identified 2025 capacity deficiency. In addition, Project No. 7 identified in Confidential Exhibit No. 4 to the Direct Testimony of Mr. Hackett in Case No. IPC-E-23-05, included a Solar + BESS BSA proposal to meet the identified 2024 capacity deficiency.

10. Moreover, the Company's assumption that certain resource types could not be constructed in such a short timeline is supported by respondent proposals received through the RFP process for capacity deficiencies identified in 2023, 2024 and 2025; the number of viable projects grew as construction timelines expanded. As evidenced in Case No. IPC-E-22-13 in which the Commission granted a CPCN for 2023 resources, only one project was able to meet the commercial operation date of June 2023, for project submittals necessary to meet the 2024 capacity deficiency, 17 projects were initially identified as able to meet the commercial operation date of June 2024[14], and the number of project proposals able to meet the commercial operation date of June 2025 grew to 36. The bid pool identified those resources that could be constructed in the short timeframe and did not hinder Idaho Power's ability to identify the least-cost, least-risk resource for meeting either the 2024 or the 2025 capacity deficiency.

11. It is worth noting that some of the concerns Staff raised regarding the RFP solicitation and resulting selection of the least-cost, least-risk resources are actively being addressed. The Company has begun the competitive procurement process under the Oregon RFP guidelines, issuing an RFP for 2026 resources on June 8, 2023. Because of the probable longer construction time frame, the solicitation broadened potential eligible

[14] *In the Matter of Idaho Power Company's Application for a Certificate of Public Convenience and Necessity to Acquire Resources to be Online By 2024 and for Approval of a Power Purchased Agreement with Franklin Solar, LLC.*

products which should alleviate Staff's apprehensions associated with a limited bid pool. In addition, Staff noted that although they believe "the scoring process was likely conducted in a fair and impartial manner,"[15] Idaho Power should include as part of the bid solicitation materials the weighting factors for the evaluation metrics and criteria. Understanding the importance of inclusion of the weighting factors for respondents of RFPs, the Company has included a description of the non-price factor weighting as a component of the RFP for 2026 resources, as well as the inclusion as Exhibit D to the RFP of the Non-Price Scoring Matrix, the non-price evaluation rubric that illustrates the weightings where applicable. As Idaho Power gains experience with the development and issuance of RFPs, future RFPs are refined, becoming more robust and ensuring a continued competitive resource acquisition process.

C. The Overbuild Associated with the BESS will be Used, Useful, and Provide Benefits to Customers When Placed in Service.

12. Battery cells within a BESS degrade over time and more rapidly in the first year of use. For example, a BESS installation providing 100 megawatt-hours ("MWhs") will supply 100 MWhs to the system on day one; however, assuming the below degradation curve, that same BESS installation will only supply 93 MWhs to the system after one year. The degradation rate varies and is a function of time and throughput, or megawatt-hours.

	Beginning of Year MWhs	Degradation MWhs	End of Year MWhs
1	100	6.9	93.1
2	93.1	2.3	90.8
3	90.8	1.8	89.0
4	89.0	1.5	87.5
5	87.5	1.4	86.1

[15] Staff Comments, pg. 7.

To mitigate the degradation, additional battery segments are added. The Company has included within the project costs of both the 77 MW and 24 MW BESS the overbuild costs associated with day one batteries. By including additional battery segments at the beginning of life, Idaho Power can ensure reliable operation at full nameplate capacity (77 MW and 24 MW) for a minimum of 4 hours through the first five years of operation before necessitating a decision to augment the BESS if the then-current capacity is below the nameplate capacity after year five. If the BESS system is not cycled daily, the longevity and assurance of performing above the nameplate capacity beyond five years is likely and thus deferral of future augmentation investments can occur. The overbuild is necessary as it provides for the most efficient plant balancing and cell utilization, extending the guaranteed performance of the entire system and ensuring the Company has the capacity necessary to meet customer demand. Absent overbuild, immediately upon the BESS being placed in service, Idaho Power would be placed in a resource deficit relative to the required capacity resources of 24 MW in 2024 and 77 MW in 2025, respectively.

13. In their Comments, Staff indicated concerns about the overbuild amounts "due to uncertainties related to cost-effectiveness and when they will become used and useful."[16] However, Idaho Power's basis for comparison of BESS proposals was consistent among all projects during evaluation through the RFP process. As noted in Confidential Exhibit No. 5 to the Direct Testimony of Mr. Hackett, some projects included overbuild in their proposals while some did not. To ensure a consistent basis for comparison, Idaho Power adjusted all proposal prices to exclude overbuild costs.

[16] Staff Comments, pg. 12.

Because adding battery cells is linear from a cost perspective, the least cost project at a 0 overbuild is going to be the least cost project with a 5 year overbuild due to the linear nature of adding battery cells. Therefore, the overbuild was appropriately captured when comparing bids submitted as part of the 2022 RFP and the selection of the 77 MW and 24 MW BESS projects resulted in the least-cost resources.

14. Staff suggests the Company has not provided certainty about when the overbuilt capacity will become used and useful due to lack of experience owning and operating a BESS and indicates "the manufacturer warranties may also be used for the first several years to mitigate excessive degradation."[17] It is important to note that manufacturer warranties would only cover the failure of a battery cell, not degradation of the BESS and therefore cannot be relied upon to ensure reliable operation of the BESS at full nameplate capacity. Further, Staff did not recognize Idaho Power's first-hand, recent experience owning and operating an 80 MW BESS at the Company's Hemingway substation, placed in service in 2023.[18] The 80 MW BESS includes overbuild, to ensure reliable operation at full nameplate capacity, that became used and useful immediately upon being placed in service. The additional battery cells result in more time that the BESS can discharge at its nameplate capacity, allowing for 4.5 hours of discharging for example as opposed to only 4 hours of discharging that would occur absent the overbuild. The overbuild associated with the 77 MW and 24 MW BESS will be used, useful, and provide benefits to customers as soon as they are placed in service.

[17] Staff Comments, pg. 11.

[18] See Case No. IPC-E-22-13, *In the Matter of Idaho Power Company's Application for a Certificate of Public Convenience and Necessity to Acquire Resources to be Online By 2023 to Secure Adequate and Reliable Service to its Customers* for which the Commission issued a CPCN, Certificate No. 538.

15. Due to their general concerns about the selection process of the 2024 and 2025 resources, Staff recommends the Commission establish a soft cap, "a threshold up to which Staff believes that the cost of the project has a high level of certainty that it is justified based on the evidence presented and what is known at this time."[19] Staff calculated the soft caps "to only include the cost and amount of capacity of the two projects without the overbuild amounts . . ."[20] The Company does not believe a soft cap is necessary. Idaho Power's evaluation of the proposals received as part of the 2022 RFP considered the costs associated with overbuilds and the resulting selection of the 77 MW and 24 MW BESS were the least-cost resources, of which the entire BESS will be used and useful when placed in service. If, however, the Commission finds it necessary to implement a soft cap, then the soft cap should apply *only* to those costs associated with the nameplate capacity of the 24 MW and 77 MW BESS, or approximately [redacted] and [redacted], respectively. If the overbuild is to be evaluated separately in a future rate proceeding as Staff is suggesting, then it is appropriate that those costs are not subject to the soft cap in this proceeding.

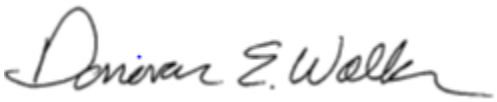
III. CONCLUSION

16. Idaho Power appreciates the opportunity to respond to Staff's comments filed in this case and for Staff's review of the history of the identification of the capacity deficiencies and understanding of the urgency for acquisition of the summer 2024 and 2025 resources. The Company respectfully requests the Commission (1) accept Staff's recommendation to grant a CPCN to acquire 101 MW of dispatchable energy storage necessary to meet the identified capacity deficiencies in 2024 and 2025, (2) approve the

[19] Staff Comments, pg. 12.
[20] *Id.*

20-year ESA between Idaho Power and Kuna BESS, as well as the First Amendment thereto which reflects Staff's proposed change, (3) acknowledge the lease accounting necessary to facilitate the transaction and that the resulting expenses associated with the ESA are prudently incurred for ratemaking purposes, and (4) reject Staff's proposed establishment of a soft cap to be applied to project costs, or in the alternative, clarify the soft cap applies only to those costs associated with the nameplate capacity of the 24 MW and 77 MW BESS.

DATED at Boise, Idaho, this 10th day of October, 2023.



DONOVAN E. WALKER
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 10th day of October 2023 I served a true and correct copy of IDAHO POWER COMPANY'S REPLY COMMENTS upon the following named parties by the method indicated below, and addressed to the following:

Staff
Chris Burdin
Deputy Attorney General
Idaho Public Utilities Commission
11331 W. Chinden Blvd., Bldg No. 8,
Suite 201-A (83714)
PO Box 83720
Boise, ID 83720-0074

_____Hand Delivered
_____U.S. Mail
_____Overnight Mail
_____FAX
__X__EMAIL: chris.burdin@puc.idaho.gov
_____ FTP Site

Christy Davenport
Legal Administrative Assistant

BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. IPC-E-23-20

IDAHO POWER COMPANY

ATTACHMENT 1

FIRST AMENDMENT TO THE ENERGY STORAGE AGREEMENT

BETWEEN

KUNA BESS LLC

AND

IDAHO POWER COMPANY

This First Amendment to the Energy Storage Agreement ("First Amendment") dated as of October _5_, 2023, ("Effective Date") is entered into by and between Idaho Power Company, an Idaho corporation ("Buyer") and Kuna BESS LLC, a Delaware limited liability company ("Seller"), (individually a "Party" and collectively the "Parties").

WHEREAS, Buyer entered into the Energy Storage Agreement ("ESA") with Seller on April 26, 2023, whereby Seller will construct, own, and operate a 150 MW AC/600 MWh battery energy storage system that Buyer will charge and discharge under the terms and conditions set forth in the ESA. Section 3.1 of the ESA requires Idaho Public Utilities Commission ("IPUC") approval of the ESA. The ESA was filed for review and approval with the IPUC on May 26, 2023, Case No. IPC-E-23-20.

WHEREAS, on September 26, 2023, the IPUC Staff filed its comments with the IPUC recommending approval of the ESA conditioned upon the Parties updating Section 19.3 of the ESA to reflect the significance of IPUC approval.

WHEREAS, the Parties desire to enter into this First Amendment to address IPUC Staff's recommended condition to approval to submit the same for the IPUC's approval along with the ESA.

NOW, THEREFORE, in consideration of the foregoing, and for other good and valuable consideration, the receipt and adequacy of which are hereby acknowledged, and intending to be legally bound, the Parties hereto agree as follows:

1. **Incorporation of Recitals.** The above-stated recitals are incorporated into and made a part of the PPA, as amended, by this reference to the same extent as if these recitals were set forth in full at this point.

2. **Amendment.** (new language is *underlined in italics*)

Section 19.3 of the ESA shall hereby be Amended as follows:

> "19.3 Amendment. No amendment, modification or change to this Agreement shall be enforceable unless set forth in writing and executed by both Parties *and subsequently approved by the IPUC*."

3. **IPUC Approval.** The obligations of the Parties under this First Amendment are subject to the IPUC's approval of this First Amendment and such approval being upheld on appeal, if any, by a court of competent jurisdiction.

4. **Effect of Amendment.** Except as expressly amended by this First Amendment, the terms and conditions of the ESA remain unchanged.

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

6. **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 hereof.

7. **Authority.** Each Party represents and warrants that as of the Effective Date: (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.

8. **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.

[SIGNATURE PAGE FOLLOWS]

IN WITNESS WHEREOF, the Parties hereto have caused this First Amendment to be duly executed as of the date above written.

IDAHO POWER COMPANY	KUNA BESS LLC
By: Adam C	By: Daniel Santelli
Name: Adam Richins	Name: Daniel Santelli
Title: COO	Title: Chief Commercial Officer

APPROVED AS TO FORM:
Idaho Power Legal Department
This date 10-5-23 DEW