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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:
472 W. WASHINGTON
BOISE, IDAHO 83702-5918

Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF ROCKY MOUNTAIN POWER'S APPLICATION FOR APPROVAL OF A POWER PURCHASE AGREEMENT BETWEEN PACIFICORP AND BIRCH HYDRO COMPANY	)	**CASE NO. PAC-E-20-07**
	)	**COMMENTS OF THE COMMISSION STAFF**

STAFF OF the Idaho Public Utilities Commission, by and through its Attorney of record, Matt Hunter, Deputy Attorney General, submits the following comments.

BACKGROUND

The Facility has a nameplate capacity of 2.65 megawatts. The Power Purchase Agreement ("PPA") contains published non-seasonal, non-levelized avoided cost rates for a 20-year term.

The Qualifying Facility ("QF") has been delivering energy to Rocky Mountain Power ("Company") in accordance with a Public Utility Regulatory Policies Act of 1978 ("PURPA") contract dated August 21, 1984. By letter dated March 30, 2006, the Company and Birch Hydro Company agreed the existing PURPA contract will expire at midnight on March 31, 2022.

STAFF ANALYSIS

Early Filing

The current contract will not expire until March 31, 2022, and the Application for this proposed, renewal contract was filed on June 3, 2020, almost two years ahead of time. The Company's Schedule No. 38 ("Qualifying Facility Avoided Cost Procedures") requires that the scheduled commercial operation date must not be greater than thirty (30) months after the execution date of the power purchase agreement. The QF is scheduled to commercially operate from April 1, 2022, and the PPA was executed on May 19, 2020. There are approximately 22.5 months between the two dates, which complies with Schedule No. 38.

90/110 Rule

Staff has reviewed the contract provisions related to the 90/110 rule and believes the monthly estimates are incorrect and the firm market price needs to be converted to a non-firm market price. Staff recommends that the parties update the monthly estimates and convert firm market price to non-firm market price using an 82.4% discount.

1. *Monthly Estimates*

The Application states that the Seller has demonstrated to the Company's reasonable satisfaction that "the likelihood the facility, under average design conditions, will generate at no more than 2.5 aMW in any calendar month." However, Exhibit A of the PPA shows that the expected monthly net output ranges from 875 aMW to 1673 aMW. Staff believes the parties are mistaken about the units used: the estimates should have used kWh, instead of MWh. Therefore, Staff recommends that the parties update the Exhibit A to include correct monthly estimate information.

2. *Advanced Notice Timeframe*

The PPA uses a 10-day advanced notice to revise future monthly estimates. (If the Company develops a web-based or other electronic noticing or scheduling system for the Seller to provide estimates, the timeframe will be revised to a 5-day advanced notice.) Staff believes any timeframe between a month in advance and 5 days in advance is reasonable.

The Commission allowed a month-ahead timeframe in Order No. 33103, which states:

> The intent of a QF providing generation estimates has always been to assist the utility in forecasting and operational planning so that the utility can provide the most reliable service possible to its customers. We find that a provision allowing for monthly generation estimate updates is consistent with that purpose.

Later, the Commission also allowed a 5-day timeframe in several cases, recognizing that monthly estimates provided closer to the time of delivery can improve the accuracy of input used 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.

Staff believes any timeframe between a month and 5 days is reasonable from the utility's planning perspective and thus recommends approval of the proposed 10-day advanced notice (and 5-day if using a web-based or other electronic noticing or scheduling system).

3. Market price

Staff finds the Company's determination of firm market price is fair and reasonable, but the price needs to be discounted to convert to non-firm market price for the purpose of 90/110.

Firm Market Price Index is defined on Page No. 4 of the PPA as:

> [T]he hourly value calculated based on the average prices reported by the Intercontinental Exchange, Inc. (ICE) Day-Ahead PV On-Peak Index and the ICE Day-Ahead PV Off-peak Index (each an ICE Index) for a given day, weighted by the count of hours for each ICE Index on such day, multiplied by the hourly CAISO day-ahead market locational marginal price for the "PACE. DGAP_PACE-APND" location and divided by the average of the same CAISO index over all hours in such day.

In this definition, PV refers to the Palo Verde Hub. The Company explained through Response to Staff's Production Request No. 11 that the Idaho service territory is located within the PacifiCorp East balancing authority area, which is more closely connected to Palo Verde than Mid-Columbia. Therefore, the Company uses the Palo Verde Hub instead of the Mid-Columbia Hub. The ICE On-Peak Index at the Palo Verde Hub, however, spans a wide range of conditions that are not adequately represented by an average value, so the Company further adjusts the numbers with the California Independent System Operator's (CAISO) day-ahead market index to provide hourly granularity. The adjustment is based on the locational marginal price for "PACE.DGAP_PACE-APND" location, which is the Default Generation Aggregate Price for the PacifiCorp East balancing authority area. This price reflects an average of generation resources in PacifiCorp East. Lastly, the hourly prices are averaged over a month to arrive at a monthly value for the purpose of 90/110. Staff believes that this method reflects the Company's actual operations and transactions and is a fair representation of firm market price values.

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. However, the market price referred to in Order No. 29632 is a non-firm market price, not a firm market price. Originally, in Order No. 29632, market price was defined as "the monthly weighted average of the daily on-peak and off-peak Dow Jones Mid-Columbia Index (Dow Jones Mid-C Index) prices for non-firm energy." However, the Dow Jones Mid-C Index was discontinued in 2013, and Case No. IPC-E-13-25 was initiated to find a replacement market index for non-firm energy. Because firm energy is more valuable than non-firm energy, the Commission authorized that 82.4% of the monthly arithmetic average of each day's Intercontinental Exchange ("ICE") daily firm Mid-C Peak Avg and Mid-C Off-Peak Avg index prices can be used as a replacement market index for non-firm energy. Order No. 33053. Since then, the 82.4% discount has been used in Idaho Power's and Avista's PURPA contracts when non-firm market prices are not available. Staff believes that 82.4% is a fair and reasonable generic discount to be applied to convert firm market price to non-firm market price.

In addition, the Company stated through Response to Staff's Production Request No. 12 that the term "Index Price" in Exhibit K was an error; it should have been a reference to the "Firm Market Price Index". The term "Mid-C-85" should have been changed to "PV-85" to reflect the use of the Palo Verde Hub. Therefore, Staff recommends amending Exhibit K to correct the mistakes and incorporate the use of the 82.4% discount throughout the PPA.

Capacity Payment

A QF only receives compensation for capacity when the utility is capacity deficient, unless it is a renewal/extension project that was paid for capacity at the end of the original contract (*see* Order No. 32697), or has contributed to meeting the utility's capacity needs during the original contract term (*see e.g.,* Case Nos. IPC-E-19-04, IPC-E-19-30, and IPC-E-19-35).

Staff is uncertain if the design of the rates reflected a *capacity deficit* or an *energy deficit*; thus Staff is uncertain if the QF is paid for capacity at the end of the original contract term.

However, during the original contract term, the Company has added significant resources to meet its capacity deficiencies. For example, Lake Side 2 was brought online in 2014 to meet the Company's capacity deficiency identified in its Integrated Resource Plan (IRP). *See* Page 9 of Volume I of PacifiCorp's 2011 IRP, Case No. PAC-E-11-10. Therefore, Staff is confident that the project has contributed to meeting the Company's need for capacity during the term of the original 1991 contract and should receive full capacity payments in the proposed PPA.

Avoided Cost Rates

Staff reviewed the non-seasonal hydro avoided cost rates contained in the PPA and believes the rates are correct. The PPA was executed on May 19, 2020, and the parties used the rates approved in Order No. 34350, which became effective on June 1, 2019.

STAFF RECOMMENDATION

Staff recommends the parties file an amended PPA that includes the following updates:

1. Update Exhibit A to include correct monthly estimate information.
2. Incorporate the 82.4% discount for purposes of converting firm market prices to non-firm market prices throughout the PPA.
3. Correct mistakes and errors in Exhibit K as described above.

Staff recommends approval of an amended PPA with these updates and also recommends that, if the updates described above are made by the Company, the Commission declare that the avoided cost prices set forth in the Agreement are just and reasonable, in the public interest, and that the Company's incurrence of such costs are legitimate expenses.

Respectfully submitted this 10th day of August 2020.

Matthew Hunter

Matt Hunter
Deputy Attorney General

Technical Staff: Yao Yin
Rachelle Farnsworth

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 10TH DAY OF AUGUST 2020, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. PAC-E-20-07, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

TED WESTON
ROCKY MOUNTAIN POWER
1407 WEST NORTH TEMPLE STE 330
SALT LAKE CITY UT 84116
E-MAIL: ted.weston@pacificorp.com
idahodockets@pacificorp.com

JACOB A McDERMOTT
ROCKY MOUNTAIN POWER
1407 WEST NORTH TEMPLE STE 320
SALT LAKE CITY UT 84116
E-MAIL: Jacob.mcdermott@pacificorp.com

ADAM LOWNEY
McDOWELL RACKNER GIBSON
419 SW 11TH AVE SUITE 400
PORTLAND OR 97205
E-MAIL: adam@mrg-law.com

DATA REQUEST RESPONSE CENTER
E-MAIL ONLY:
datarequest@pacificorp.com

Jo Nelson
SECRETARY