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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF ROCKY MOUNTAIN POWER'S APPLICATION FOR APPROVAL OR REJECTION OF THE POWER PURCHASE AGREEMENT BETWEEN PACIFICORP AND SUNNY BAR RANCH	**CASE NO. PAC-E-21-10** **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

On April 1, 2021, Rocky Mountain Power, a division of PacifiCorp ("Company"), requested the Commission approve or reject a Power Purchase Agreement ("PPA" or "Agreement") with Sunny Bar Ranch, LLLP for energy generated by a hydroelectric facility ("Facility") with a Nameplate Capacity Rating of 450 kilowatts ("kW").

The Facility is in Butte County, Idaho, and it has been delivering energy to the Company in accordance with a power purchase agreement dated June 27, 1985, which expires April 30, 2021. The Company states that the Agreement contains published, non-seasonal, non-levelized avoided cost rates for a 20-year term.

The Company requests the Commission declare all payments for purchase of energy under the PPA be allowed as prudently incurred expenses for ratemaking purposes.

STAFF ANALYSIS

Staff's review has focused on the nameplate capacity rating, capacity payment eligibility, avoided cost rates, the 90/110 Rule, the lapsed contract period, and the long-range forecasting.

Nameplate Capacity Rating

Staff believes that the nameplate capacity rating of the Facility has always been 450 kW, instead of 350 kW stated in the original 1985 contract. The Company has no documentation to explain why the original 1985 contract stated that the Nameplate Capacity Rating was 350 kW, and the Company also stated that the 350 kW used in Case No. PAC-E-20-17 was an oversight.[1] *See* Response to Staff's Production Request No. 1. According to the Company response to Staff Production Request No. 2, the Facility has been at 450 kW since initial construction, and no modifications have been made to the generator and turbine equipment since initial installation of the original equipment.

Capacity Payment Eligibility

Staff is confident that the project has contributed to meeting the Company's need for capacity during the term of the original 1985 contract and should receive full capacity payments in the proposed PPA for all generation from the Facility.

This QF was paid for capacity at the end of the original contract term, and according to Commission Order No. 32697, 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. In addition, during the QF's original contract term the Company has added significant resources to meet its capacity deficiencies, which also qualifies it for immediate capacity payments as in Case Nos. IPC-E-19-04, IPC-E-19-30, and IPC-E-19-35.

Avoided Cost Rates

Because the project has always had 450 kW of capacity since construction, Staff believes only one set of avoided cost rates should be used. The proposed PPA allows immediate capacity payments each hour up to 350 kWh, while generation amounts in excess of 350 kWh would not

[1] Case No. PAC-E-20-17 was a case requesting a one-year contract extension. The application was withdrawn because the Seller had secured the necessary interconnection agreement required for a new long-term contract, making the contract extension unnecessary.

receive capacity payments until the first deficit year. Staff believes this rate structure would be necessary if only the first 350 kW of capacity was contributing to meeting capacity needs during the original contract term.[2] As discussed above, Staff believes this is not the case for this Facility, since the nameplate capacity rating of the Facility hasn't changed, and the full 450 kW of capacity has been in operation since it was originally constructed.

Staff recommends one set of avoided cost rates with capacity payments starting immediately as shown in Column 1.a. of Table 1 in Exhibit K of the PPA, instead of using two sets of avoided cost rates with a cutoff of 350 kWh.

90/110 Rule

The 90/110 Rule requires the seller of a qualifying facility to provide utilities with a monthly estimate of the amount of energy the seller expects to produce. If the seller delivers more than 110 percent of the estimated amount, then the utility must buy the excess energy for the lesser of 85 percent of the market price or the contract price. If the seller delivers less than 90 percent of the estimated amount, then the utility must buy total energy delivered for the lesser of 85 percent of the market price or the contract price. *See* Order No. 29632 at 20.

Staff confirmed the PPA contains the 90/110 Rule as required by Commission Order No. 29632 and believes that the advanced notice provisions and market prices used for determining prices outside of the 90/110 band are reasonable. However, as discussed above, Staff does not believe there is a need to use two sets of avoided cost rates when determining the contract rate for 90/110.

Advanced Notice

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:

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[2] A bifurcated rate structure for 90/110 was implemented for the Felt Hydro Project in Case No. PAC-E-20-10. Felt Hydro was originally implemented with two powerhouses, one of which had not been operational for several years and had not been contributing to avoiding capacity during its original contract term. Both powerhouses became operational at the start of its renewal contract, but generation from the newly operational powerhouse was not eligible for capacity payments until the first capacity deficiency date, requiring a different rate for the increased amount of generation.

> 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* Order Nos. 34263 and 34870.

Market Prices

The Company uses Palo Verde Hub to establish market prices for the purpose of the 90/110 Rule. Staff believes the Company's determination of market prices is fair and reasonable.

Two Sets of Avoided Cost Rates

The Company has proposed to use a Weighted-Average Conforming Energy Purchase Price based on two sets of rates, one with capacity payments and one without, as the contract price when comparing to market price when energy production is outside the 90/110 band. However, Staff recommends only using the avoided cost rates with immediate capacity payments as the contract price for reasons discussed earlier.

<u>Lapsed Contract Period</u>

The original contract expired on April 30, 2021, and the Initial Delivery Date is May 1, 2021. However, the Effective Date of the PPA will occur after the Commission approves the PPA. *See* PPA at Section 2.1. Therefore, there is a lapsed contract period between the Initial Delivery Date and the Effective Date. Because of steps the Seller and the Company took to establish a long-term contract in spite of difficulties to establish an adequate interconnection to the Company's system without the need for a contract extension, Staff recommends that the Seller receive both energy and capacity payments based on the contract rates.

In Case No. AVU-E-19-16, the Commission approved both energy and capacity payments during a lapsed contract period for Stimson Lumber. In that case, the Commission stated that parties could request an extension to the original contract to avoid a time gap between contracts. Order No. 34692 at 3. During the latter part of last year, the Seller and the Company requested a one-year extension to the original PPA through Case No. PAC-E-20-17 to finalize a new interconnection agreement and ensure distribution system upgrades are constructed and in-service at the start of a long-term renewal contract. However, based on progress made to establish an interconnection and through discussions with Commission Staff, the Company withdrew the case. Since withdrawing the case, the Seller has secured a new stand-alone interconnection agreement that replaces the interconnection provisions in the original contract and the parties executed the PPA included in this case on March 29, 2021. Application at 4. For these reasons, Staff recommends energy and capacity payments be approved during the lapsed contract period using the recommended avoided cost rates mentioned above.

Long-Range Forecasting

The Seller agrees to provide an annual update to the 12 X 24 generation profile described in Section 6.7.1 of the PPA. Although the Commission does not require 12 X 24 generation profiles for contracts that use published rates, Staff does not oppose this provision agreed upon by the parties.

STAFF RECOMMENDATION

Staff recommends that the Commission:

1. Direct the parties to file an amended PPA to use one set of avoided cost rates with immediate capacity payments and to implement the 90/110 Rule based on that rate structure; and
2. Allow both energy payments and capacity payments for the lapsed contract period between the May 1, 2021 Initial Delivery Date and the Effective Date of the PPA, using the published rates in the amended PPA.

If the updates described above are made by the parties and filed with the Commission as an amended PPA, Staff recommends the Commission approve the amended PPA and find that the avoided cost prices set forth in the amended PPA are prudently incurred expenses for ratemaking purposes.

Respectfully submitted this 1st day of June 2021.

For: Matt Hunter
Deputy Attorney General

Technical Staff: Yao Yin

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 1st DAY OF JUNE 2021, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. PAC-E-21-12, BY E-MAILING A COPY THEREOF, TO THE FOLLOWING:

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