

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S PETITION TO TEMPORARILY SUSPEND ITS PURPA OBLIGATION TO PURCHASE ENERGY GENERATED BY SOLAR-POWERED QUALIFYING FACILITIES (QFs)	)))))))	CASE NO. IPC-E-14-09 ORDER NO. 33043
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On May 13, 2014, Idaho Power Company filed a Petition requesting the Commission immediately issue an Order temporarily suspending the utility's obligation to purchase energy from solar-powered qualifying facilities (QFs) under the federal Public Utility Regulatory Policies Act (PURPA). Idaho Power asserts that the purpose of the temporary suspension would allow it to complete the "current solar integration cost study and to include the results thereof into [its power] purchase agreements [(PPAs)] with solar QFs." Petition at 2. In the alternative, Idaho Power requests the Commission issue an Order that "any solar PURPA contracts or obligations . . . with Idaho Power shall contain an appropriate solar integration charge." *Id.* at 1-2. The Company maintains that a temporary suspension is necessary "to prevent great and irreparable harm" to its customers that will result if the utility is compelled to enter into PPAs/obligations with solar QFs without the inclusion of solar integration costs. *Id.* at 2.

Based upon Idaho Power's request for immediate relief, the Commission issued a Notice of Public Hearing on May 19, 2014. Order No. 33039. In its Notice, the Commission stated that the purpose of the public hearing was to consider two narrow questions:

- (1) Whether the Commission should immediately issue an Order temporarily suspending Idaho Power's obligation under PURPA to enter into contracts to purchase energy generated by solar-powered QFs; and
- (2) Alternatively, whether the Commission should issue an Order directing Idaho Power to include an appropriate solar integration charge in PURPA contracts with solar QFs.

Id. at 1. The Commission specifically stated that public testimony regarding "whether and what type of solar integration charge may be appropriate" will be the subject of a subsequent proceeding. *Id.*

After reviewing the Petition, the accompanying prefiled testimony, the written comments and the testimony at the public hearing, we deny Idaho Power's request for temporary suspension of its PURPA obligation. Instead, we partially grant its alternative request and direct Idaho Power and its solar counterparties to negotiate solar integration provisions in their PPAs as discussed in greater detail below.

BACKGROUND

A. PURPA and Avoided Cost Rates

Congress enacted PURPA in 1978 in response to a national energy crisis. "Its purpose was to lessen the country's dependence on foreign oil and to encourage the promotion of and development of renewable energy technologies as alternatives to fossil fuels." Order No. 32580 at 3, *citing FERC v. Mississippi*, 456 U.S. 742, 745-46 (1982). PURPA and its implementing regulations require electric utilities to purchase the power produced by QFs. This mandatory purchase requirement is often referred to as the "must purchase" provision of PURPA. 18 C.F.R. § 292.303(a).

The rate a QF is to receive for the sale of its power to a utility is generally referred to as the "avoided cost" rate and is established by this Commission. "The avoided cost rate represents the 'incremental cost' to the purchasing utility which, but for the purchase of power from the QF, such utility would either generate itself or purchase from another source." Order No. 32580 at 3, *citing Rosebud Enterprises v. Idaho PUC*, 128 Idaho 624, 917 P.2d 781 (1996); 16 U.S.C. § 824a-3(d); 18 C.F.R. § 292.101(b)(6). PURPA Section 210(b) and the related FERC regulations provide that the rates for QF purchases shall: (1) be just and reasonable to the electric consumer of the electric utility and in the public interest; and (2) not discriminate against QFs. 16 U.S.C. § 824a-3(b); 18 C.F.R. § 292.304(a)(1)(i-ii). Electric utilities are not required to pay more than the utility's avoided costs for the purchase of QF power. 18 C.F.R. § 292.304(a)(2); Order No. 31092 at 2.

In our recent generic PURPA investigation (Case No. GNR-E-11-01), the Commission established the eligibility cap for published avoided cost rates for solar QF projects at 100 kW. 18 C.F.R. § 292.304(c); Order No. 32697 at 3-4 *citing* Order No. 32262. Thus, solar projects with a design capacity of more than 100 kW must negotiate avoided cost rates using the utility-specific Integrated Resource Plan (IRP) methodology. Order No. 32262 at 8; *see also* 18 C.F.R. § 192.304(c). The purpose of using the IRP methodology is to more precisely value the

power being delivered to the utility by the QF. The IRP methodology recognizes the individual generating characteristics of each project by assessing when the QF is capable of delivering its power and when the utility is most in need of the power. Order No. 32697 at n.1.

B. Integration Charges

An “integration charge” represents the utility’s increased costs of integrating an intermittent generating resource into its system and acts as a discount to reduce the avoided cost rate paid to QFs. Idaho Power asserts that intermittent resources cause the utility to operate its own dispatchable “resources differently in order to successfully integrate the intermittent [QF power] without compromising reliability” of its system. Petition at 13. Given the intermittent nature of solar power, the purchasing utility must have sufficient resources to “backup” the intermittent QF power. Typically an integration charge has been established based upon cost studies performed by each electric utility and is applied as an adjustment or decrement to the avoided cost rate. The integration charge is a calculated cost on a megawatt-hour (MWh) basis and usually remains fixed during the term of the PPA. Order No. 31021 at 1-2 (history of wind integration costs).

THE PETITION

A. Prior Solar Cases

As Idaho Power points out in its Petition, the Commission had previously approved two solar PPAs but those PPAs were subsequently terminated. Petition at 6-7. Neither of the two terminated PPAs included an integration clause. In Grand View Solar I (Case No. IPC-E-10-17), the Commission noted that the PPA executed in 2010 did not include a solar integration adjustment. In approving the PPA, the Commission acknowledged that the solar project constitutes an intermittent generating resource “and the necessity for the [utility] to provide backup” generation. Order No. 32068 at 5. However, the Commission also agreed with Staff that “insufficient data exists to calculate an integration adjustment” at that time. *Id.*

In the subsequent 2011 Interconnect Solar case (Case No. IPC-E-11-10), we observed that Staff reported that:

Numerous studies have confirmed and quantified wind integration costs, but very few solar integration studies have been done. Staff believes that solar integration costs are material, and maybe comparable to wind integration costs. Idaho Power reports that it appears to be widely assumed and accepted that there is some level of integration costs associated with all intermittent

resources such as wind and solar generation. Staff noted that no integration costs have been incorporated into the [Interconnect Solar] Agreement.

Order No. 32384 at 6 (emphasis added). The Commission did find that the avoided cost factors identified by Staff “should be considered wh[en] negotiating future power purchase agreements. . . . It is the Commission’s intent, and consistent with PURPA and FERC regulations, that a utility negotiate these [future] agreements with an awareness of its actual avoided cost.” *Id.* at 10.

B. The Solar Integration Study

Since August 2013, Idaho Power states that it has been developing its solar integration study for projects using photovoltaic technology. Petition at 12. The Company formed a “Technical Review Committee” (TRC) to develop and prepare the solar integration study. *Id.* at 2, 11, 16. The Company anticipates that it will have the final results of its integration study “in the near future, as early as next month in mid-June.” Petition at 11 *citing* Allphin Direct at 7-8.

On May 1, 2014, the Company held a public workshop on the status of the integration study. The workshop included participants from the Company’s TRC, Staff members from the Idaho and Oregon Utility Commissions, solar developers and representatives, and other interested persons. Petition at 11.

C. The Request for Temporary Relief

In its Petition, Idaho Power asserts that it has and is currently negotiating with a host of solar developers about 31 different solar projects that have a cumulative capacity of 501 MW. Petition at 8. Idaho Power reports that 15 projects totaling 341 MW are proposed to be located in Idaho, and the remaining 16 projects representing 160 MW are proposed to be located in Oregon. “Currently, none of these contracts and potential contracts/obligations contain any solar integration costs, and thus customers will pay much more than the Company’s avoided cost for this QF output” if integration charges are not included in these contracts. *Id.* at 7. According to Company witness Randy Allphin, six of the Oregon projects (totaling 60 MW) have fully executed PPAs. Allphin at 3. If all the solar projects currently in negotiations are placed into service, the Company declared that its renewable QF power would increase from a nameplate rating of “883 MW to nearly 1,400 MW. Idaho Power’s minimum load on its entire system for 2013 was 1,005 MW.” Petition at 9 (internal citations omitted).

Based upon the current avoided cost rates in Idaho and Oregon, the Company calculates that the cumulative cost of this solar power is approximately \$1.89 billion to customers over the 20-year life of these potential contracts. *Id.* Idaho Power estimates the financial impact of not including solar integration charges in these contracts is approximately \$146 million, based upon its existing wind integration costs of \$6.50/MW. *Id.*

On May 12, 2014, Idaho Power sent e-mails that included “updated and superseding draft [PPAs] containing a solar integration charge to the four solar QF projects who had previously received draft contracts.” Petition at 11. Minutes later, Idaho Power states it took delivery of five proposed PPAs for five 20 MW solar projects. The Company alleges the five draft contracts were facsimiles of another draft contract previously provided to a different solar QF project. *Id.* Idaho Power maintains it is common knowledge the Company is poised to soon propose a solar integration charge and solar developers are now attempting to secure contracts or obligations that do not include such a charge. *Id.* at 16-17.

Idaho Power concludes that a temporary suspension of its obligation to purchase “is necessary to prevent irreparable harm to Idaho Power’s customers that will result from entering into purchase agreements/obligations with solar QFs without the inclusion of solar integration costs. . . . History is repeating itself and Idaho Power is once again before the Commission seeking relief on behalf of its customers from locking in [solar] rates that exceed the Company’s avoided costs for the next 20 years. . . .” Petition at 16. If the Commission is not inclined to issue an Order temporarily suspending Idaho Power’s obligation to purchase solar-power from QFs, then the Company alternatively requests that the Commission order that any solar contracts or obligations “shall contain an appropriate solar integration charge.” *Id.* at 17.

COMMENTS AND PUBLIC TESTIMONY

The Commission received about 30 written comments and 14 individuals testified at the public hearing.¹ Most commenters and public witnesses oppose Idaho Power’s request to suspend its obligation to purchase solar power. Several commenters and witnesses questioned whether a suspension was necessary to prevent “great and irreparable harm to Idaho Power’s customers.” They noted that according to Idaho Power, it only has 60 MW of solar power under contract while the remaining amount is in various stages of negotiation. Sunergy World’s

¹ The Commission also received three Petitions to Intervene and written comments from Alternative Power Development, LLC; Idaho Clean Energy Association; and the Idaho Conservation League. Counsel for these entities attended the public hearing on May 21, but only Alternative Power submitted testimony at the hearing.

witness estimated that only about 17.5% of the projects under contract are eventually completed and selling power to a utility. Other commenters and witnesses asserted that any perceived emergency on Idaho Power's part was due in part by the length of time it has taken to complete its solar integration study. They suggested that the work on the study be accelerated.

Several commenters and witnesses offered conflicting testimony about solar integration charges in general. In particular, some commenters and witnesses recognized that there are costs associated with integrating solar generation with the utility's resources, and others said there were no costs or that the benefits outweighed the costs. Rocky Mountain Power commented that there are solar integration charges in Utah and that the Oregon Commission has recognized integration costs in general "are legitimate costs that should be factored into avoided cost calculations." Comment at 2.² In its August 2013 order, the Utah Public Service Commission implemented a solar integration charge based on a percentage of Utah's wind integration charge. Docket No. 12-035-100, 307 P.U.R. 4th 246 (2013). The Utah Commission stated "given the absence of a solar integration study, we accept the division's proposal to respectively apply 65% and 50% of the wind integration cost . . . to Fixed Solar and Tracking Solar resources. . . . These values will remain in effect pending PacifiCorp filing a solar integration study." *Id.* at 22. Robert Paul from Alternative Power Development testified that Arizona has a \$2.50/MW solar integration charge.

Finally, several commenters and witnesses recognize that under the IRP process, Idaho Power is free to negotiate an integration charge with solar developers. Renewable Northwest stated that:

The Company is free to negotiate a solar integration rate for those projects that are not subject to a standard contract. We recognize that Idaho Power has not yet completed its solar integration study, but its analysis to date could be used to inform the contract negotiations, and contract provisions can be drafted a number of ways to account for the incomplete study results without burdening the Commission with the petition.

Comments at 2. Likewise, the Sierra Club observed that Idaho Power "is free to continue to negotiate with [QFs] while they calculate the costs of solar integration, and/or use contractual

² In its Order No. 14-058, the Oregon Commission went on to say that there is too little data to produce accurate solar integration cost estimates and the amount of solar QF power at present is small. 2014 WL 794270 at 9 (2014). Therefore, "we will revisit this issue in the future after more solar development occurs." *Id.* at 10.

placeholders with PURPA developers during the negotiation process.” Sierra Club at 1; *see also* ICL at 2.

DISCUSSION AND FINDINGS

After carefully reviewing Idaho Power’s Petition, the accompanying prefiled direct testimony, the written comments and public testimony, we decline Idaho Power’s first request to suspend its purchase obligation until the solar integration study can be completed and the solar integration charge incorporated into PPAs or obligations. While we appreciate Idaho Power’s concern that the pending completion of its solar integration study has resulted in a “run-on-the-bank,” we find that suspending Idaho Power’s purchase obligation is not the appropriate remedy to address the solar integration charge issue.

Instead, we find the more appropriate course of action is to direct the utility and its solar counterparties that their negotiations in pursuit of solar contracts using the IRP methodology should include consideration of a solar integration charge. This is consistent with the comments of several entities and witnesses. We anticipate that contracts submitted for Commission approval will provide for solar integration charges. Integration charges are nothing new. As noted above, the Commission recognized and supported the need for these charges in Orders issued several years ago. *See* Order Nos. 32068 and 32384. While we recognize that Idaho Power is still developing its solar integration charge, we believe the reasonable course of action to determine the appropriate value of solar energy in new contracts is for parties to consider and negotiate a solar integration provision in their PPAs.

Our guidance to the negotiating parties is based in part on PURPA’s requirements that avoided cost rates be just and reasonable to the utility’s ratepayers and in the public interest. As in the case of wind QFs, utilities incur costs when they must integrate intermittent QF resources into their generation resource stack. Idaho Power is concluding a study that we hope will yield some reasonable approximation of solar integration costs. The utility believes that the anticipated completion of the study has prompted solar developers to shortcut the negotiation process. The IRP negotiation process is intended to be flexible enough to consider other factors such as an integration charge.

Without addressing the merits of a specific integration charge, the negotiating parties should consider several possible options for including a solar integration provision in their PPAs. For example, through arms-length bargaining, parties may negotiate and agree upon a solar

integration rate to include in their PPA. These charges may vary from very little to more based on project location, project size and other factors. We believe the benefits and value of solar generation are reflected in the solar avoided cost rates and not part of the consideration when developing the costs of integrating solar resources. Second, parties might consider including a “placeholder” integration charge provision and agree to subsequently implement an integration charge after consideration of Idaho Power’s study results. Third, parties might consider using the wind integration rate (\$6.50/MW) as a temporary surrogate until a solar integration charge is approved by this Commission. At such time, then the parties could agree to true-up the placeholder charges to the approved integration charge. Various commenters and witnesses recommended these options. Other options may also be available.

Idaho Power indicated that it began its solar integration study in August 2013. The Company offered no explanation about why it did not begin the study sooner or why it has not completed the study in a more timely manner. Several commenters and public witnesses noted that the imminent “crisis” caused by the lack of a completed solar integration study is of the Company’s own making. We agree. We order Idaho Power to complete its solar integration study as soon as possible.

In summary, we believe that Idaho Power’s filing has reinforced our previous view that integration charges should be a part of PPAs, and has adequately demonstrated that there is a pressing need to address the issue of a solar integration charge in solar PPAs under consideration by negotiating parties. Consistent with PURPA, FERC regulations and prior Commission guidelines, we encourage the contracting parties to negotiate and provide for a solar integration charge in their PPAs.

ORDER

IT HEREBY ORDERED that Idaho Power’s request for a temporary suspension of its obligation to purchase power from solar QFs until such time as its solar integration charge can be incorporated into its power purchase agreements (PPAs) is denied.

IT IS FURTHER ORDERED that Idaho Power’s alternative request for an Order that requires that an appropriate solar integration charge be included in all subsequent PPAs or other obligations is partially granted as modified above. The Commission directs that parties negotiating solar PPAs also address the inclusion of a solar integration charge as a provision of their PPAs.

IT IS FURTHER ORDERED that Idaho Power complete its solar integration study as soon as possible.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. IPC-E-14-09 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this case. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 28th day of May 2014.



PAUL KJELLANDER, PRESIDENT



MACK A. REDFORD, COMMISSIONER



MARSHA H. SMITH, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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