DECISION MEMORANDUM

TO: **COMMISSIONER KJELLANDER**
COMMISSIONER SMITH
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COMMISSION SECRETARY
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LEGAL

FROM: **DAPHNE HUANG**
DEPUTY ATTORNEY GENERAL

DATE: **OCTOBER 15, 2015**

SUBJECT: **ROCKY MOUNTAIN POWER'S APPLICATION TO APPROVE CAPACITY DEFICIENCY FOR AVOIDED COST CALCULATIONS, CASE NO. PAC-E-15-12**

In Order No. 32697, the Commission directed each utility to initiate a case outside of its Integrated Resource Plan (IRP) filing to establish the capacity deficiency period for calculating avoided cost under the surrogate avoided resource (SAR) methodology. On October 13, 2015, Rocky Mountain Power Company filed an Application asking the Commission to approve its updated capacity deficiency period for use in its avoided cost calculations. The Company asked that the Application be processed under Modified Procedure.

BACKGROUND

Under the Public Utility Regulatory Policies Act (PURPA), electric utilities must purchase electric energy from qualifying facilities (QFs) at rates approved by this Commission. 16 U.S.C. § 824a-3; *Idaho Power Co. v. Idaho PUC*, 155 Idaho 780, 789, 316 P.3d 1278, 1287 (2013). The purchase or "avoided cost" rate shall not exceed the "'incremental cost' to the purchasing utility of power which, but for the purchase of power from the QF, such utility would either generate itself or purchase from another source." Order No. 32697 at 7, *citing Rosebud Enterprises v. Idaho PUC*, 128 Idaho 624, 917 P.2d 781 (1996); 18 C.F.R. § 292.101(b)(6) (defining "avoided cost").

The Commission has established two methods of calculating avoided cost, depending on the size of the QF project: (1) the surrogate avoided resource (SAR) methodology, and (2) the Integrated Resource Plan (IRP) methodology. *See* Order No. 32697 at 7-8. At issue in this

case is the SAR methodology, which the Commission uses to establish "published" avoided cost rates. *Id.* Published rates are available for wind and solar QFs with a design capacity of up to 100 kilowatts (kW), and for QFs of all other resource types with a design capacity of up to 10 average megawatts (aMW). *Id.*

In calculating avoided cost, the Commission found it "reasonable, appropriate and in the public interest to compensate QFs separately based on a calculation of not only the energy they produce, but the capacity that they can provide to the purchasing utility." *Id.* at 16. As to the capacity calculation, the Commission found it appropriate "to identify each utility's capacity deficiency based on load and resource balances found in each utility's IRP." *Id.* The Commission elaborated:

> In calculating a QF's ability to contribute to a utility's need for capacity, we find it reasonable for the utilities to only begin payments for capacity at such time that the utility becomes capacity deficient. If a utility is capacity surplus, then capacity is not being avoided by the purchase of QF power. By including a capacity payment only when the utility becomes capacity deficient, the utilities are paying rates that are a more accurate reflection of a true avoided cost for the QF power.

Id. at 21.

The Commission directed that "when a utility submits its [IRP] to the Commission, a case shall be initiated to determine the capacity deficiency to be utilized in the SAR Methodology." *Id.* at 23. The Commission also stated "utilities must update fuel price forecasts and load forecasts annually – between IRP filings. . . . We find it reasonable that all other variables and assumptions utilized within the IRP Methodology remain fixed between IRP filings (every two years)." *Id.* at 22.

THE APPLICATION

Rocky Mountain filed its 2015 IRP (Case No. PAC-E-15-04) with the Commission on March 31, 2015. The Company's 2015 IRP includes the results of its capacity balance which is "calculated for summer peak loads only." Application at 3. Also, the 2015 IRP "shows that the Company first becomes capacity deficient in 2020." *Id.* According to the 2015 IRP, "[a]vailable system capacity is increased in the summer of 2021 with the expiration of a legacy exchange contract, and the system falls short again in 2023." *Id.*

Rocky Mountain identifies three factors affecting the capacity deficit period reflected in its 2015 IRP: (1) additional power purchase agreements signed with QFs since preparation of

the 2015 IRP; (2) termination of power purchase agreements that were included in the 2015 IRP; and (3) changes to the Company's load forecast. *Id.* at 4. After accounting for these factors, Rocky Mountain states that its "updated capacity deficit first occurs in the summer of 2025." *Id.*

Rocky Mountain's Application includes Table 2, which shows "updated system capacity loads and resources." *Id.* Table 2 reflects the inclusion of 564 MW of nameplate capacity from 23 additional QF contracts, as well as the removal of two QF contracts, thus eliminating 82 MW of nameplate capacity and roughly 12 MW of system capacity contribution. *Id.* at 4-5. The Company asks the Commission to approve a capacity deficiency period, for calculating SAR-based avoided cost rates, of summer 2025.

STAFF RECOMMENDATION

Staff recommends that this matter be processed under Modified Procedure with a 21-day comment period.

COMMISSION DECISION

Does the Commission wish to issue a Notice of Application and Notice of Modified Procedure setting a 21-day comment period?

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Deputy Attorney General

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