DECISION MEMORANDUM

TO: **COMMISSIONER KJELLANDER**
COMMISSIONER RAPER
COMMISSIONER ANDERSON
COMMISSION SECRETARY
COMMISSION STAFF

FROM: **DAPHNE HUANG**
DEPUTY ATTORNEY GENERAL

DATE: **MARCH 27, 2017**

SUBJECT: **IDAHO POWER'S APPLICATION TO APPROVE ITS ENERGY SALES AGREEMENT WITH CAFCO IDAHO REFUSE MANAGEMENT LLC, IDAHO, AS TO THE SISW LFGE PROJECT, CASE NO. IPC-E-17-04**

On March 22, 2017, Idaho Power Company filed an Application asking the Commission to approve its Energy Sales Agreement with CAFCO Idaho Refuse Management LLC, Idaho ("CAFCO"). The Agreement falls under the Public Utility Regulatory Policies Act of 1978 (PURPA), and is a contract for the sale of electric energy purchased by Idaho Power, and generated by CAFCO's Southern Idaho Regional Solid Waste District Landfill Gas to Energy Project ("Facility") near Burley, Idaho. Idaho Power asks that its Application be processed by Modified Procedure.

BACKGROUND

Under 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. The Commission uses the SAR methodology – which applies to the Facility in this case – 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 this case, the Facility is a QF under the "all other resource type" category. Application at 3.

In calculating avoided cost, the Commission has 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." Order No. 32697 at 16. In calculating capacity, the Commission considers "each utility's capacity deficiency based on load and resource balances found in each utility's [Integrated Resource Plan] IRP," as well as "a QF's ability to contribute to a utility's need for capacity." *Id.* at 16, 21.

THE AGREEMENT

Idaho Power and CAFCO entered into their Agreement on March 13, 2017. Application at 3. Under the Agreement's terms, CAFCO elected to contract with Idaho Power for a 20-year term using the non-levelized "other" published avoided cost rates, as established by the Commission (Order No. 33538) for energy deliveries of less than 10 aMW. *Id.* Although the nameplate rating of the Facility is 5 megawatts (MW), CAFCO agrees not to exceed 10 aMW on a monthly basis. *Id.* at 4. If the Facility does exceed the monthly 10 aMW limit, CAFCO agrees that "Idaho Power will accept the energy (Inadvertent Energy) that does not exceed the Maximum Capacity Amount, but will not purchase or pay for this Inadvertent Energy." *Id.*

CAFCO has agreed to October 1, 2018, as the Scheduled Operation date. *Id.* The terms and provisions of the Agreement include that "applicable interconnection charges and monthly operation and maintenance charges under Schedule 72 will be assessed to [CAFCO]." *Id.* Also, PURPA QF generation "must be designated as a network resource ("DNR") to serve Idaho Power's retail load on its system." *Id.* To maintain DNR status, "there must be a power purchase agreement associated with [the project's] transmission service request that maintains compliance with Idaho Power's non-discriminatory administration of its Open Access Transmission Tariff (OATT) and maintains compliance with [Federal Energy Regulatory Commission] FERC requirements." *Id.* at 4-5. The Agreement provides that it will not become effective "until the Commission has approved all of [its] terms and conditions and declared that all payments Idaho Power makes to CAFCO for purchases of energy will be allowed as prudently incurred expenses for ratemaking purposes." *Id.* at 5.

STAFF RECOMMENDATION

Staff recommends that the case be processed by Modified Procedure with a 21-day comment period, followed by a 7-day reply period for Idaho Power.

COMMISSION DECISION

Does the Commission wish to process this case under Modified Procedure with a 21-day comment period followed by a 7-day reply period for Idaho Power?

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