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UTILITIES COMMISSION

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August 27, 2020

VIA ELECTRONIC FILING

Jan Noriyuki, Secretary
Idaho Public Utilities Commission
11331 W. Chinden Boulevard
Building 8, Suite 201-A
Boise, Idaho 83714

Re: Case No. IPC-E-20-02
Idaho Power Company's Petition to Establish Avoided Cost Rates and Terms
for Energy Storage Qualifying Facilities under PURPA

Dear Ms. Noriyuki:

Attached for electronic filing in the above matter are Follow-Up Comments of Idaho Power Company. If you have any questions about the enclosed documents, please do not hesitate to contact me.

Very truly yours,

Donovan Walker

DEW/ cld
Enclosures

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Attorney for Idaho Power Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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|----------------------------------|---|-----------------------|
| IN THE MATTER OF IDAHO POWER |) | |
| COMPANY'S PETITION TO ESTABLISH |) | CASE NO. IPC-E-20-02 |
| AVOIDED COST RATES APPLICABLE TO |) | |
| PURPA ENERGY STORAGE QUALIFYING |) | FOLLOW-UP COMMENTS OF |
| FACILITIES. |) | IDAHO POWER COMPANY |
| |) | |
| |) | |

Idaho Power Company ("Idaho Power" or "Company"), in accordance with RP 201, *et seq.*, as well as the Idaho Public Utilities Commission's ("IPUC" or "Commission") Notice of Modified Procedure in this matter, Order No. 34699, hereby respectfully submits the following Follow-up Comments.

I. INTRODUCTION AND BACKGROUND

On July 16, 2020, Idaho Power filed initial comments, as did Commission Staff ("Staff") in this matter. On August 6, 2020, three parties: Renewable Northwest, Idaho Conservation League, and Clenera, LLC filed comments in response the request for public input and the Commission's Notice of Modified Procedure Order No. 34699. Idaho Power's initial comments from July 16, 2020, recite the procedural history and background underlying the request to determine the proper avoided cost rates and

contract term applicable to energy storage PURPA¹ Qualifying Facilities (“QF” or “QFs”) including the Memorandum Decision and Order issued January 17, 2020, in *Franklin Energy Storage One et al. v. Kjellander et al.*, Case No. 1:18-cv-00236-REB. Rather than repeat that background here, Idaho Power incorporates herein by this reference the Introduction and Background from its initial comments filed on July 16, 2020.

II. COMMENTS

Idaho Power reiterates its request that the Commission adopt a 100 kW published rate eligibility cap for energy storage QFs for two primary reasons: (1) to prevent or combat the potential disaggregation of energy storage QFs into 10 aMW increments seeking application of the surrogate avoided resource (“SAR”) based published rates and 20 year contracts; and (2) to require the use of the Incremental Cost Integrated Resource Plan (“ICIRP”) methodology based upon the QFs specific hourly generation profile for most energy storage QFs and limit the customer harm from over-application of the SAR based rates. Additionally, the Commission should consider as an alternative request setting a 100 kW published rate eligibility cap for energy storage QFs on an interim basis and initiate a broader investigation docket into the overall revision of avoided cost rates and methodologies for the implementation of PURPA in the state of Idaho to include the potential adoption of FERC’s recently updated federal rules on PURPA.

Disaggregation

Nothing presented in this matter in response to the request for public input refutes the fact that energy storage projects, particularly battery storage QFs, are modular and very easily disaggregated or sized to meet published rate eligibility limits - similar to the

¹ Public Utility Regulatory Policies Act of 1978 (“PURPA”)

way in which wind and solar were configured before the Commission set a 100 kW published cap for those resource types. The record shows that the battery storage projects proposed to Idaho Power thus far are sized and/or disaggregated specifically intending to attempt eligibility for SAR-based published rates and 20-year contracts as “other” QFs. See, Idaho Power Comments, July 16, 2020, p 8-13; Case No. IPC-E-20-17, Black Mesa Complaint; Case No. IPC-E-17-01, Petition for Declaratory Order Regarding Proper Contract Terms, Conditions, and Avoided Cost Pricing for Battery Storage Facilities.

The Commission has addressed these issues before for wind and solar QFs and previously determined:

PURPA and the implementing regulations require only that the published/standard avoided cost rates be established and made available to QFs with a design capacity of 100 kW or less. 18 C.F.R. § 292.304(c) ... Wind and solar projects larger than 100 kW continue to be entitled to PURPA contracts at avoided cost rates calculated using the IRP Methodology. Furthermore, a 100 kW threshold for wind and solar QFs provides a certainty to the parties in negotiations that disaggregation criteria would not. While we recognize the impact that this decision will have on small wind and solar projects, it would be erroneous, and illegal pursuant to PURPA, for this Commission to allow large projects to obtain a rate that is not an accurate reflection of the utility’s avoided cost for the purchase of the QF generation.

Order No. 32262, p. 8 (citations omitted).

This Order shortens the length of IRP-based PURPA contract in order to maintain a more accurate avoided cost ... This Order strikes a balance between just and reasonable rates for ratepayers, the public interest and interests of QFs, as is mandated by PURPA and FERC regulations.

Order No. 33357, p. 23, 32. It is appropriate and within the exclusive authority of the Commission to act in the public interest to protect customers from potential manipulation

of the rules and to assure a more accurate avoided cost determination - and establish a 100 kW published rate eligibility cap for energy storage projects.

Avoided Cost Rate Methodology and Contract Term

It is important to note that a determination establishing a 100 kW published rate eligibility cap does not mean that the utility is relieved of its obligation to purchase. Under the Commission's current implementation of PURPA it means that projects above that size threshold are entitled to avoided cost rates set, not by the SAR methodology, but by the more accurate and superior ICIRP methodology. Staff agrees and acknowledges that the ICIRP methodology "more accurately reflects avoided costs and minimizes potential harm to customers." Staff Comments, p 4. A 100 kW published rate cap ensures that the great majority of energy storage QFs would be priced with the more accurate pricing methodology. Battery storage QFs have thus far been proposed by professional energy facility developers, are not typical "mom-and-pop" shops, and possess a level of sophistication whereby they can easily produce a generation profile required for ICIRP pricing. The ICIRP methodology is capable of capturing and pricing the differentiated delivery timing from battery QFs and properly pricing the same according to the particular avoided cost of specific displaceable Company resources that are operating during those same hours of delivery. The potential benefits of utility-scale battery storage facilities cannot be recognized when the Proposed Battery Storage Facilities are configured in such a manner as to come under published rates, priced at the avoided cost of a natural gas combustion turbine, and using standard PURPA contract terms and conditions. It would only be possible to determine the value of proposed energy storage QFs in a manner that protects utility customers through the project-specific avoided cost

determinations of the ICIRP methodology and the negotiated rate and contract process required of proposed QFs that exceed the published rate eligibility cap.

A major rationale underlying the Commission's determination to limit the maximum contract term for all QFs above the published rate eligibility cap to two years was the limitation and inability of the Commission to update the avoided cost rates during the term of the contract.

Based upon our record, we find that 20-year contracts exacerbate overestimations to a point that avoided cost rates over the long-term period are unreasonable and inconsistent with the public interest. We find shorter contracts reasonable and consistent with federal and state law for multiple reasons. First, shorter contracts have the potential to benefit both the QF and the ratepayer. By adjusting avoided cost rates more frequently, avoided costs become a truer reflection of the actual costs avoided by the utility and allow QFs and ratepayers to benefit from normal fluctuations in the market...

This Order shortens the length of IRP-based PURPA contract in order to maintain a more accurate avoided cost ... This Order strikes a balance between just and reasonable rates for ratepayers, the public interest and interests of QFs, as is mandated by PURPA and FERC regulations.

Order No. 33357, p. 23, 32. FERC has now revised its rules and specifically authorized state Commissions to allow the energy rate to be updated throughout the term of the mandatory purchase or contract. FERC referred to the Idaho Commission in its order adopting this revision and several other PURPA rule changes.

Further, the Commission [FERC] pointed to evidence that the desire to limit the effect of fixed QF contract rates had directly led to PURPA implementation issues that affected QF financing in other respects, particularly with respect to length of QF contracts. For example, a commissioner of the Idaho Commission testified at the Technical Conference that the Idaho Commission's decision to limit QF contracts to a two-year term was based on the Idaho Commission's concern that longer contract terms at fixed rates would lead to payments

above avoided costs.

172 FERC ¶ 61,041, *Qualifying Facility Rates and Requirements, Implementation Issues Under the Public Utility Regulatory Policies Act of 1978*, FERC Docket No. RM 19-15-000 and AD 16-16-000, Order No. 872, ¶ 243, p 145 (citing n384 (citing Technical Conference Tr. at 142-43 (Idaho Commission))("No matter the starting point, allowing QFs to fix their avoided cost rates for long terms results in rates which will eventually exceed and overestimate avoided cost rates into the future. The longer the term, the greater the disparity. ... [The Idaho Commission] recently reduced PUPRA contract lengths to two years in order to correct the disparity. We didn't reduce contract lengths to kill PURPA. We did it to allow periodic adjustment of avoided cost rates.")). It may be appropriate to authorize contracts for a term longer than two years if there is an authorized provision that allows for the update of avoided cost rates during the term of the contract.

III. CONCLUSION AND REQUESTED RELIEF

The record supports, and Idaho Power respectfully requests, that the Commission issue an order establishing a 100 kW published avoided cost rate cap for energy storage QFs. This is required in order to ensure customers are not harmed, that a proper and more accurate avoided cost rate is established for energy storage over 100 kW, and to discourage/prevent the disaggregation or manipulation of project size by battery storage QFs in order to gain access to published rates or a 20-year contract term. As Staff recognized there is a current and present need to set a Commission-authorized avoided cost rate and contract term for energy storage QFs for Idaho Power, Staff Comments, p 3, and in the present context of the Federal Court decision in *Franklin, supra*, as well as the current requests for battery storage PURPA QF contracts, a proper and authorized

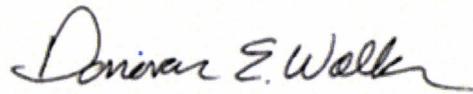
rate is required today.

However, in recognition of the new rules promulgated by FERC that no longer require avoided cost rates to be fixed for the entire term of a purchase contract and allows the state commission to establish avoided cost methodologies that may periodically update avoided cost rates during the term of a mandatory purchase contract, Idaho Power proposes an alternative and/or additional request for relief in this docket. Staff made reference in its Comments to a “follow-on docket to examine refinement or alteration of avoided cost rate methodologies for battery QFs for all electric utilities in Idaho ...” Staff Comments, p 3. Indeed, Idaho Power believes that a follow-up docket should be opened, but broadened to look at the possible revision, refinement, alteration, or abandonment of the existing avoided cost methodologies and establishment of a more refined and accurate avoided cost methodology applicable to all QFs that examines incorporation of the expressed expanded authority granted to state commissions by the recently directed FERC PURPA rule changes. The ICIRP is acknowledged as a more accurate and better approximation of avoided cost rates than the SAR methodology. The ICIRP methodology could also possibly be refined or modified as well. As mentioned, FERC rules now authorize state commissions to periodically update avoided cost rates during the term of a contract. The new rules also authorize state commissions to utilize other metrics to approximate a utility’s avoided cost such as Locational Marginal Pricing, competitive prices from liquid market hubs, or competitive solicitations conducted pursuant FERC rules. The ICIRP may also benefit from refinement based upon the long-term capacity expansion modelling, and other updates to the Company’s integrated resource planning.

To meet the current need for project pricing and requests for contract, Idaho Power

alternatively requests that the Commission establish a 100 kW published rate cap and application of the current avoided cost pricing methodologies and contract terms on an interim basis - and correspondingly open a general PURPA avoided cost methodology docket to examine possible revision of the avoided cost methodologies and incorporation of the new FERC PURPA rules.

Respectfully submitted this 27th day of August 2020.



DONOVAN E. WALKER
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 27th day of August 2020, I served a true and correct copy of the within and foregoing FOLLOW-UP COMMENTS OF IDAHO POWER COMPANY upon the following named parties by the method indicated below, and addressed to the following:

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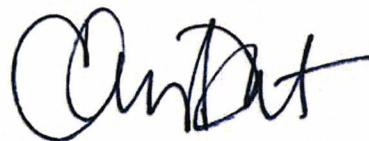
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