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UTILITIES COMMISSION

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January 12, 2021

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 is Idaho Power Company's Reply Comments on Compliance Filing. 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

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)	IDAHO POWER COMPANY'S
FACILITIES.)	REPLY COMMENTS ON
)	COMPLIANCE FILING
)	
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_____)	

I. MOTION

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 and Order No. 34794, hereby respectfully submits the following Reply Comments regarding the Company's Compliance Filing pursuant to Order No. 34794.

I. INTRODUCTION, BACKGROUND, AND FACTS

On January 21, 2020, Idaho Power filed a Petition to initiate a proceeding to determine the proper avoided cost rates, as well as contract terms and conditions

applicable to, and to be included in PURPA¹ contracts requested by energy storage Qualifying Facilities (“QF” or “QFs”). Idaho Power’s Petition, p 1. On July 16, 2020, Idaho Power filed initial comments, as did Commission Staff (“Staff”). On August 6, 2020, three parties: Renewable Northwest, Idaho Conservation League, and Clenera, LLC filed comments in response to 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 PURPA 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 repeating those facts and background here, Idaho Power incorporates herein by this reference the Introduction and Background from its initial comments filed on July 16, 2020, as well as the Background and facts from its initial Petition in this matter.

On October 2, 2020, the Commission issued Order No. 34794 that established an energy storage QF category for avoided cost and contracting purposes, established an eligibility cap of 100 kW for energy storage QF’s eligibility for published avoided cost rates and contract terms up to 20 years, and directed that energy storage QFs larger than 100 kW are entitled to rates calculated using the Company’s Incremental Cost Integrated Resource Plan (“ICIRP”) Methodology and 2-year contract terms. In addition, the Commission directed the Company to file an updated avoided cost methodology that identifies Peak Hours and pays for capacity only during the designated Peak Hours. On October 30, 2020, Idaho Power submitted its Compliance Filing that described Idaho

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

Power's implementation of the directives contained in Order No. 34794. Idaho Power's Compliance Filing described the Company's process and procedures for determining Peak Hours and Premium Peak Hours occurring on the Idaho Power system and described a method of payment for capacity and other potential contract elements that may be required to implement Peak Hours and Premium Peak Hours in an energy sales agreement with a PURPA energy storage QF.

II. REPLY COMMENTS

Staff filed Comments on the Company's Compliance Filing on December 29, 2020, recommending adoption of the Company's determination of Peak Hours and Premium Peak Hours and the method of payment for capacity based on Peak Hours and Premium Peak Hours. Staff Comments, Dec. 29, 2020, p 4-7. Idaho Power appreciates Staff's consideration, investigation, discussion, and its recommendation regarding the application of Peak Hours and Premium Peak Hours for payment of capacity to energy storage QFs. Even though the Company is capacity sufficient to meet projected load for almost a decade, this will provide a significant price signal to any mandatory purchase from energy storage QFs to deliver generation during hours the Company will have the most use for the output from energy storage QFs. Order No. 34794 established parameters for eligibility of avoided cost prices for energy storage QFs and associated contract length, and a requirement to identify peak hours for payment of capacity to energy storage QFs. Idaho Power believes its Compliance Filing adequately addresses the requirements of Order No. 34794 regarding determination of peak hours. Therefore, the Company is concerned that Staff's recommendations would result in inefficiencies and inconsistencies across contracts for energy storage QFs using energy sales

agreements (“ESA”) under published avoided cost rates versus those that are eligible for ICIRP-based contracts. In addition, some of Staff’s recommendations would result in discrepancies and missed opportunities; for example, locking in contractual provisions related to Peak Hours and Premium Peak Hours for the term of a contract — removing the ability to annually update Peak Hours and Premium Peak Hours — limits the ability to utilize the dispatchable operational benefits of energy storage QFs.

Updates to Peak Hours and Premium Peak Hours

In Idaho Power’s Compliance Filing, the Company described the method that is used to determine Peak Hours and Premium Peak Hours for payment of capacity to energy storage QFs. As described in the Company’s filing, Idaho Power believes that the load forecast that is updated annually for modeling the Company’s avoided costs available to PURPA QFs using the ICIRP Methodology should also serve as the basis for identifying the peak hours to be used in the assignment of the avoided cost of capacity. Therefore, the Company proposes to file annual updates to the Peak Hours and Premium Peak Hours in conjunction with the annual October 15 update to the ICIRP Methodology. In their Compliance Filing Comments, Staff concluded the determination of Peak Hours and Premium Peak Hours as submitted in Idaho Power’s Compliance Filing is reasonable. However, Staff suggests that updates to Peak Hours and Premium Peak Hours should occur when the Company makes a filing to request an updated first capacity deficiency date after acknowledgment of the Company’s Integrated Resource Plan (“IRP”). This creates several problems.

First, the Company’s capacity deficiency filing is unrelated to the implementation of Peak Hours and Premium Peak Hours in contracts with PURPA QFs. The purpose of

the capacity deficiency filing is to comply with the Commission's directives of Order Nos. 32697, 33084, and 33159, (the timing of the filing was later changed by the Commission until after the Commission has acknowledged the Company's IRP in Order No. 33914) and used to establish the point in time that eligible QFs may begin to receive capacity payment. Whereas, the directive of Order No. 34794 is to determine the hours that the capacity component of avoided cost prices is to be paid. Specifically, Order No. 34794 is not intended to change the fixed inputs of the avoided cost of capacity or the timing of when an energy storage QF is eligible to receive payment for capacity. Order 34794 is meant to re-allocate the total amount of capacity paid to an energy storage QF on an annual basis from all hours the QF supplies its generation to Peak Hours and Premium Peak Hours. These hours should be based on the most current and applicable load forecast that is updated annually on October 15. Because there are so many other issues involved with the review and acknowledgment of the IRP, there is less stability and predictability in when that acknowledgment will occur. Updating the Peak Hours and Premium Peak Hours coincident with the annual load forecast update brings more predictability to timing of the update, as well as aligning the update directly with the update to the basis of the determination, assuring timely use of the most up-to-date information.

Second, Order Nos. 32697 and 32802, established that updates to the load and gas forecasts should occur annually on October 15. This is to ensure that the most current basis for the load forecast input to the ICIRP Methodology is used, and because the final annual update to the Company's load forecast is not completed until approximately September of each year, October 15 was identified as reasonable timing to update that input. The load forecast is updated annually and since it is the primary basis of

determining the Company's Peak Hours and Premium Peak Hours it is reasonable that these elements are updated at the same time. Locking in the Peak Hours and Premium Peak Hours for at least two years, as recommended by Staff, may result in missing an opportunity to send appropriate price signals to energy storage QFs to deliver their generation during hours that are estimated to be when the Company's peak load will occur. In addition, waiting until a capacity deficiency filing is processed and the Commission has approved a new first capacity deficiency date may create further delay and a separation from the intent of establishing peak hours for capacity payment. For example, the Commission stated in Order No. 32697, issued on December 18, 2012, "when a utility submits its Integrated Resource Plan to the Commission, a case shall be initiated to determine the capacity deficiency to be utilized in the SAR Methodology". Order 32697, p. 23. This requirement was modified to include the ICIRP Methodology in Order 33159. Then, on October 24, 2017, in Order No. 33917, the timing of the first capacity deficiency filing was changed for each Idaho electric utility to "after the Commission has acknowledged its IRP report, rather than upon its IRP filing, thus amending Order No. 32697". As it relates to Idaho Power's Compliance Filing, there has been at least two updates to the Company's load forecast since the 2019 IRP was initially filed, which would likely result in too much inaccuracy of applying Peak Hours and Premium Peak Hours to capacity payments.

Third, annual updates to Peak Hours and Premium Peak Hours allow for payment of capacity to be based on the most current estimation of when the Company's peak system loads will occur and when the potential operational benefits of energy storage generation may be of benefit to the Company's system by sending a price signal.

Therefore, Idaho Power believes the Commission should issue an order that directs the Company to include an update to Peak Hours and Premium Peak Hours for calculation of the avoided cost of capacity for energy storage QFs with the Company's annual load and gas updates filed on October 15 of each year.

Contract Provisions and Capacity Payment

Staff's Compliance Filing Comments present recommendations for different applications of Peak Hours and Premium Peak Hours to ESAs based on published avoided cost rates from contracts based on the ICIRP Methodology. Idaho Power does not agree this is necessary or fair to its customers. To be clear, this case and the implementation of Order No. 34794 is solely directed to energy storage QFs. The technologies and operational capabilities are the same for this resource type regardless of size. Order No. 34794 specifically established a separate energy storage QF category, the eligibility cap for published avoided cost rates and contract term, and an updated avoided cost methodology to include peak hours. Idaho Power believes any contract terms and provisions needed to implement the Commission's directives from Order No. 34794 should be negotiated and included in any possible future ESAs that would be required to be submitted to the Commission for its independent review and approval or rejection. The major difference between ESA types is that energy storage QFs 100 kW and smaller are eligible for published avoided cost rates and a 20-year contract term while energy storage QFs larger than 100 kW are eligible for ICIRP based rates and a 2-year contract term.

With regard to contract provisions that relate to the Peak Hours and Premium Peak Hours, Idaho Power recommends that contracts — both published rate and ICIRP based

— contain the same Peak Hours and Premium Peak Hours that are updated annually on October 15. Under the Company's recommendation, QFs with ICIRP based contracts could update their hourly generation profile on the same annual basis if the QF desires. QFs with ESAs that contain published avoided cost rates would not have an hourly generation profile but would only need to dispatch their generation from the energy storage facility during the Peak Hours and Premium Peak Hours in order to be paid the highest capacity price.

ESAs based on published avoided cost rates or ICIRP rates for energy storage QFs should not have the ability to lock in Peak Hours or Premium Peak Hours for the duration of the contract term. Locking in a provision like Peak Hours and Premium Peak hours, which can change over time, for the perception of simplicity exacerbates the potential for retail customers to pay a high cost for capacity when capacity is not needed. If the Peak Hours and Premium Peak Hours are locked in for the duration of the contract term, the potential benefit of controlled dispatch of generation from an energy storage facility has less value because the timing of when the facility's output should be dispatched can change. Idaho Power believes an annual update to Peak Hours and Premium Peak Hours, and the payment of capacity during those specific hours, will provide the price signal to deliver generation when its may be of most use, as intended by the Commission in Order No. 34794.

Staff's comments address issues surrounding contracts containing levelized contract rates. Idaho Power agrees that historically, levelized contract rates have created numerous challenges and disputes among parties due to the additional contract provisions required for levelized contracts. Levelized contracts essentially front load

contracts with “higher” payments during earlier years leaving a risk that project owners could walk away from the project during later years when being paid “lower” payments. Therefore, these contracts require additional provisions that include items such as additional insurance, escrow reserves, lump sum repayment amounts, second liens, etc. In fact, a case is currently pending, Case No. IPC-E-20-28, regarding a dispute with QFs over lump sum repayment amounts. However, Idaho Power does not fully understand Staff’s conclusion regarding levelized rates as the Company’s understanding of the Surrogate Avoided Resource (“SAR”) Methodology used to establish published avoided costs allows for a separate calculation of capacity and energy components and a levelized calculation of those components. Regardless, Idaho Power does not believe additional process is needed to calculate the SAR based price at this time, but if/when an energy storage QF is proposed that seeks SAR based avoided cost prices, the Company shall work with Staff to provide the proper rate to the proposed QF using the SAR Methodology. For example, a similar situation occurred in Case No. IPC-E-19-39, where a cogeneration QF required a fueled rate that was calculated using the SAR Methodology, but such rate was not published on the Commission’s website. Idaho Power worked with Staff to calculate the fueled rate included in the cogeneration QF’s ESA that was subsequently approved by the Commission.

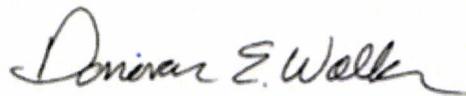
Staff correctly points out that Idaho Power’s Compliance Filing primarily focuses on the calculation of capacity prices based on the ICIRP Methodology. However, the allocation of the capacity component of avoided cost prices can be properly made to peak hours in both the SAR Methodology and the ICIRP Methodology. In addition, the payment of capacity during Peak Hours and Premium Peak Hours can be made under both

contract types. Idaho Power believes a consistent application of this concept is essential to send the proper price signal to energy storage QFs that have the ability to provide their must-take generation during specific hours.

III. CONCLUSION AND RECOMENDATIONS

Idaho Power appreciates Staff's input and recommendation to establish Peak Hours and Premium Peak Hours and the Commission's directives in this case. Idaho Power recommends that the Commission issue a final order accepting the Company's Compliance Filing for determining Peak Hours and Premium Peak Hours and that payment of capacity in contracts for QFs that are sized below and above the eligibility cap is allocated to the Peak Hours and Premium Peak Hours. The Commission has not directed Idaho Power, and the Company has not proposed, to make any changes to the underlying inputs or calculations of avoided costs in either the ICIRP Methodology or the SAR Methodology, but to only allocate the capacity component of the avoided cost to Peak Hours and Premium Peak Hours. Idaho Power believes the application of Peak Hours and Premium Peak Hours can and should be applied to all energy storage QFs, including those above and below the eligibility cap for published avoided cost rates. The Company also believes that contract provisions required to implement these concepts should be evaluated if or when an ESA with an energy storage QF is presented to the Commission for its approval or rejection.

Respectfully submitted this 12th day of January 2021.



DONOVAN E. WALKER
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 12th day of January 2021, I served a true and correct copy of the within and foregoing IDAHO POWER COMPANY'S REPLY COMMENTS ON COMPLIANCE FILING upon the following named parties by the method indicated below, and addressed to the following:

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