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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION OF IDAHYDRO, SHOROCK HYDRO, INC., J.R. SIMPLOT COMPANY, AND RENEWABLE ENERGY COALITION FOR MODIFICATION OF THE 90/110 PERFORMANCE BAND AND CALCULATION OF OPERATION AND MAINTENANCE CHARGES FOR PURPA QUALIFYING FACILITIES	)	CASE NO. IPC-E-18-07 IDAHO POWER COMPANY'S RESPONSE TO THE FIRST PRODUCTION REQUEST OF THE COMMISSION STAFF TO IDAHO POWER COMPANY

COMES NOW, Idaho Power Company ("Idaho Power" or "Company"), and in response to the First Production Request of the Commission Staff to Idaho Power Company dated June 7, 2018, herewith submits the following information:

REQUEST NO. 1: Does Idaho Power believe 90/110 contributes to more accurate avoided costs? If so, please explain why. If not, why not?

RESPONSE TO REQUEST NO. 1: Yes. The main function of the 90/110 provisions in the state of Idaho's implementation of the Public Utility Regulatory Policies Act of 1978 ("PURPA") is to serve as a measure of firmness that establishes a Qualifying Facility's ("QF") eligibility for "firm" avoided cost rates determined at the time of contracting or legally enforceable obligation ("LEO"), as opposed to "non-firm" avoided cost rates established at the time of generation delivery.

All QF purchases are "non-firm" in that delivery of their generation occurs as, when, and in whatever amounts the QF determines it will deliver. The purchasing utility has no dispatchable control over the QF's generation deliveries. The implementation of PURPA's mandatory purchase requires its own unique definition of "firm" and "non-firm" pricing. For "non-firm" purchases, "as available" pricing is applied and is determined at the time of delivery. For "firm" pricing, avoided cost values are used for the duration of the term at the time of contracting or LEO.

The Idaho Public Utilities Commission ("Commission") has determined that a LEO for the purchase of QF generation translates into contractual obligations for both the utility and the QF. In order to receive the "firm" pricing avoided cost rates, the QF is obligated to deliver its generation within the 90%-110% band of its own monthly generation estimates, which the QF sets itself and is free to modify. Compliance with the 90/110 provisions is how a QF establishes its eligibility for pricing determined at the time of contracting or LEO that is set for the term of the contract or LEO. If the QF is not in compliance with the 90/110 provisions required of "firm" pricing, then it receives

the other approved avoided cost price for "non-firm" or "as available" pricing determined at the time of delivery. Thus, the 90/110 provisions contribute to more accurate avoided costs, as the primary function of such provisions is to establish a QF project's eligibility to one of two required and approved avoided cost prices set by the Commission.

The response to this Request is sponsored by Tessia Park, Vice President of Power Supply, Idaho Power Company.

REQUEST NO. 2: Please explain how the 90/110 contract provision relates to the cost of integrating variable resources.

RESPONSE TO REQUEST NO. 2: As stated in the Company's response to Staff's Request No. 1, the primary function of the 90/110 provisions is to establish a measure of firmness to determine the appropriate avoided cost rate eligibility for QFs. This primary function has little to do with the cost of integrating variable resources. However, application of the 90/110 provisions allows for the beneficial use of the QF project's estimated net energy deliveries in power supply planning and operations. The monthly generation estimates provided by the QFs are part of the basis for the Company's forecast of generation that it will receive from Cogeneration and Small Power Production ("CSPP") QF projects. Please see Idaho Power's answer to J.R. Simplot Company's Interrogatory No. 2, discussing in general how the Company moves from monthly, or long-term forecasts, into real-time operations to balance the system.

The "cost of integrating variable resources" has in the past been established and implemented following a specific integration cost study conducted by the Company with participation and input from stakeholders, a filing by the Company, and approval by the Commission. The Company has conducted three wind integration studies and two solar integration studies. The Company is currently authorized to include an integration charge for wind and solar QF resources, which offsets the avoided cost prices for a qualifying project. Integration costs identified by the Company's integration studies attempt to quantify and value the changed operation of the Company's system required to integrate variable and intermittent resources, such as wind and solar, into its system. This is accomplished by identifying and quantifying the additional amount of generation

reserves that must be held on the system in order to ramp generation both up and down to accommodate for the variable and intermittent generation resources' upward and downward deviations from forecast moving into real-time balancing operations.

As stated in Idaho Power's response to Staff's Request No. 1, all CSPP purchases are "non-firm" in that delivery of their generation occurs as, when, and in whatever amounts the QF determines it will deliver. The purchasing utility has no dispatchable control over the QF's generation deliveries. The implementation of PURPA's mandatory purchase requires its own unique definition of "firm" and "non-firm" pricing. For "non-firm" purchases, "as available" pricing is applied and is determined at the time of delivery. For "firm" pricing, avoided cost values are used for the duration of the term at the time of contracting or LEO. The Commission has determined that a LEO for the purchase of QF generation translates into contractual obligations for both the utility and the QF. In order to receive the "firm" pricing avoided cost rates, the QF is obligated to deliver its generation within the 90%-110% band of its own monthly generation estimates, which the QF sets itself and is free to modify. Compliance with the 90/110 provisions is how a QF establishes its eligibility for pricing determined at the time of contracting or LEO that is set for the term of the contract or LEO. If the QF is not in compliance with the 90/110 provisions required of "firm" pricing, then it receives the other approved avoided cost price for "non-firm" or "as available" pricing determined at the time of delivery.

The 90/110 provisions are primarily concerned with a QF establishing its eligibility for pricing determined at the time of contracting or LEO that is set for the term of the contract or LEO. Integration of variable resources is an operational task that is

required to operate a balanced system. In the context of purchases from CSPP projects, the integration of variable resources is typically referred to in relation to an integration charge. The integration charge is designed to hold retail customers of the utility indifferent to the required PURPA purchase by compensating the utility for the increased cost necessitated by the requirement to hold additional generation reserves on the system for up and down regulation. Thus, the primary function of 90/110 provisions and the integration of variable resources are aimed at, and address different functions and aspects of, the mandatory purchase of CSPP QF generation.

The response to this Request is sponsored by Tessia Park, Vice President of Power Supply, Idaho Power Company.

REQUEST NO. 3: Please explain how the 90/110 contract provision relates to the cost of holding system reserves.

RESPONSE TO REQUEST NO. 3: The cost of holding system reserves, for both up and down regulation and system balancing, is typically studied and quantified in integration studies. The 90/110 provisions are used to determine a PURPA CSPP project's eligibility for one of two required avoided cost rates. For "non-firm" purchases, "as available" pricing is applied and is determined at the time of delivery. For "firm" pricing, avoided cost values are used at the time of contracting or LEO for the duration of the term. Please see Idaho Power's responses to Staff's Request Nos. 1 and 2.

The response to this Request is sponsored by Tessia Park, Vice President of Power Supply, Idaho Power Company.

REQUEST NO. 4: Is it practical and feasible to conduct an integration study on hydro QFs on the Idaho Power system?

RESPONSE TO REQUEST NO. 4: It is possible to conduct an integration study for hydro QFs in the same or similar manner as an integration study for wind and solar QFs. In fact, Idaho Power's most recent draft 2018 Variable Energy Resource ("VER") Integration Study indicates that a unified VER integration analysis may be the best way to assess costs for the incremental addition of wind and solar generation to Idaho Power's system. The analysis also indicates that the Idaho Power system is nearing a point where the current configuration can no longer integrate additional VERs. To the extent that hydro QF resources are intermittent and variable resources similar to wind and solar that impose an additional cost upon Idaho Power retail customers from the increased cost of having to provide additional up and down regulating reserves because of hydro's variation of actual generation from forecast, a unified VER integration charge assessed to hydro QF projects may be appropriate. That particular study has not yet been performed, and, as discussed in Idaho Power's responses to Staff's Request Nos. 1, 2, and 3, the firmness, the avoided cost rate eligibility requirements addressed by the 90/110 provisions, and the customer neutrality requirements of assessment of an integration charge for variable, intermittent generation are separate concepts that address different PURPA implementation requirements.

The response to this Request is sponsored by Tessia Park, Vice President of Power Supply, Idaho Power Company.

REQUEST NO. 5: The current monthly operation and maintenance (O&M) service charges for QF interconnection facilities are based upon a percentage of actual interconnection investment: 0.7% for distribution facilities (below 138kV) and 0.4% for transmission facilities (138kV and 161Kv) *See* Case No. IPC-E-90-20. Does Idaho Power believe this methodology is still reasonable and appropriate today? Please explain.

RESPONSE TO REQUEST NO. 5: Yes, the Company believes the methodology of basing the O&M charge on a percentage of the construction cost and transfer cost paid by the seller (the interconnection cost) is still reasonable and appropriate today. This methodology calculates the percentage based on actual test year system-wide transmission and distribution plant account balances and system-wide transmission and distribution O&M expense account balances.

The methodology is consistent with traditional ratemaking methodologies, which allocate system-wide costs to develop cost-of-service for all retail customer classes in all jurisdictions, as well as for standby services, facilities charges, and Open Access Transmission Tariff formula rates for transmission services.

For example, in the development of retail rates in a general rate case, the Company performs a cost-of-service study to allocate its total costs among its different classes of customers. The allocation process uses system-wide information to develop rates applicable to specific customer classes or rate schedules. Each customer in a class then pays the same rates based on its rate schedule. Actual costs to serve each customer are not tracked.

Another pertinent example of a ratemaking methodology is Idaho Power's facilities charge (Schedule 66, Miscellaneous Charges, Rule M), which administers facilities charges to retail customers for customer-dedicated facilities installed beyond the point of delivery but operated and maintained by Idaho Power. The facilities charge includes an allocation of distribution O&M expenses based on the Company's ratio of distribution O&M to total distribution plant investment, similar to how the Schedule 72 O&M rate is calculated. While the Schedule 66 facilities charge was developed for a different purpose and thus uses a different calculation methodology than the Schedule 72 O&M charge, it provides another example of the routine, widespread use of system average information to develop rates.

In response to Renewable Energy Coalition's ("REC") Request for Production No. 1.10, the Company recalculated the below 138 kilovolt rate using 2017 general ledger data applied to the methodology used in Case No. IPC-E-90-20 and the 0.7% monthly rate did not change. This result demonstrates the stability of that methodology.

The response to this Request is sponsored by Mark Annis, Senior Regulatory Analyst, Idaho Power Company.

REQUEST NO. 6: Please update the percentages mentioned above (0.7% and 0.4%) used to calculate the current O&M levelized rates by using the most recent input data (i.e. 12 months ending December 31, 2017), and provide worksheets (with formula intact) to show the calculation steps.

RESPONSE TO REQUEST NO. 6: Please see the Company's responses to REC's Request for Production Nos. 1.2 and 1.10.

The response to this Request is sponsored by Mark Annis, Senior Regulatory Analyst, Idaho Power Company.

DATED at Boise, Idaho, this 28th day of June 2018.

DONOVAN E. WALKER
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 28th day of June 2018 I served a true and correct copy of IDAHO POWER COMPANY'S RESPONSE TO THE FIRST PRODUCTION REQUEST OF THE COMMISSION STAFF TO IDAHO POWER COMPANY upon the following named parties by the method indicated below, and addressed to the following:

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