

# LES Avoided Costs<sup>1</sup>

## Introduction

In accordance with the Public Utilities Regulatory Policies Act (PURPA), the Federal Energy Regulatory Commission (FERC) requires electric utilities to provide a utility’s estimated avoided energy and capacity cost data for public inspection. These estimated avoided costs are intended to represent an estimation of the associated average cost of an additional unit of energy or additional unit of capacity as well as an estimate of the rate LES would pay for energy from a Qualifying Facility (QF).

In 2014 LES entered into the Southwest Power Pool (SPP) integrated market (IM). Since the majority of energy purchases made by LES are transacted through the IM, the average SPP IM price will be used to estimate avoided energy costs. These estimated avoided costs are provided to assist PURPA determined Qualifying Facilities with the evaluation of the feasibility of projects. Estimated costs within this document are not necessarily intended to be an actual rate to be paid for energy purchases. Actual energy purchase rates, including those pursuant to a legally enforceable obligation with a QF, may vary throughout the life of the obligation and may be set at the avoided costs for energy calculated at the time of delivery.

## Estimated Energy Avoided Cost

The estimated avoided costs for energy are based on the average SPP IM price for the last recorded full calendar year. Projections are then developed by calculating the future value of the average market price. The EIA projected wholesale annual growth rate (1.6%) for 2022-2050<sup>2</sup> is used for the growth rate. Details of the calculation can be found below.

$$\text{Estimated Avoided Cost} = x \cdot (1 + z)^n$$

Where:

$x$  = 5 Year Average Real Time SPP Locational Market Price at Lincoln, NE

$z$  = EIA Projected Wholesale Annual Growth Rate (1.6%)

$n$  = Projected Year – 2023

LES Estimated Market Based Avoided Cost 2023-2029 \$/MWh <sup>3</sup>									
Year	Annual Hours Cost	Winter Daytime Hours Cost <sup>5</sup>	Summer Daytime Hours Cost <sup>5</sup>	Winter Non Peak Cost	Winter Peak Cost	Summer Non Peak Cost	Summer Peak Cost	Growth Rate (z)	Number of Periods (n)
5 Year Average SPP Market Price <sup>4</sup> (x)	\$24.29	\$27.22	\$39.21	\$21.13	\$26.81	\$22.87	\$42.35	0.00%	0
2024	\$24.68	\$27.66	\$39.84	\$21.47	\$27.24	\$23.23	\$43.03	1.60%	1
2025	\$25.07	\$28.10	\$40.48	\$21.82	\$27.68	\$23.60	\$43.72	1.60%	2
2026	\$25.47	\$28.55	\$41.12	\$22.16	\$28.12	\$23.98	\$44.42	1.60%	3
2027	\$25.88	\$29.00	\$41.78	\$22.52	\$28.57	\$24.36	\$45.13	1.60%	4
2028	\$26.29	\$29.47	\$42.45	\$22.88	\$29.03	\$24.75	\$45.85	1.60%	5
2029	\$26.71	\$29.94	\$43.13	\$23.25	\$29.49	\$25.15	\$46.59	1.60%	6

<sup>1</sup> Prepared by the Rates and Analytics Department

<sup>2</sup> EIA projected wholesale annual growth rate is taken from EIA 2023 Energy Outlook

<sup>3</sup> Per LES Rate Schedules: Winter is October 1<sup>st</sup> through May 31<sup>st</sup>, Summer is June 1<sup>st</sup> through September 30<sup>th</sup>, Peak is 2 pm to 8 pm, and Non Peak is 8 pm to 2 pm

<sup>4</sup> Calculated from prices from January 2017 through December 2022

<sup>5</sup> Seasonal daytime hours are 8 am to 6 pm, these hours are used in the calculation of the Virtual Net Meter (VNM) rider rate



## Estimated Avoided Capacity Costs

As part of the regulations, FERC requires the availability of capacity plans for the next 10 years. LES does not currently project a requirement for additional generating capacity until beyond 2034. LES may add generating resources within this time frame, however these additions would most likely be added based on a strategic objective and not on the necessity of generating capacity. The need for future generating capacity is reviewed on an ongoing basis and every 5 years during development of LES' integrated resource plan.



## QUALIFYING FACILITY CRITERIA PURSUANT TO 18 CFR §292.304(d)(3)

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In accordance with the Federal Energy Regulatory Commission's regulations of the Public Utility Regulatory Policies Act (PURPA) of 1978 (as amended), Lincoln Electric System (LES) has developed criteria which will be used to determine whether a Qualifying Facility, which intends to enter into a legally enforceable obligation with LES, has demonstrated that the facility is commercially viable and has a financial commitment to construct in place in order to comply with 18 CFR §292.304(d)(3), effective as of February 16, 2021.

The language of §292.304(d)(3) states:

*(3) Obtaining a legally enforceable obligation.* A qualifying facility must demonstrate commercial viability and financial commitment to construct its facility pursuant to criteria determined by the state regulatory authority or nonregulated electric utility as a prerequisite to a qualifying facility obtaining a legally enforceable obligation. Such criteria must be objective and reasonable.

### **LES Criteria for Legally Enforceable Obligation**

To obtain a legally enforceable obligation, a Qualifying Facility with a net power production capacity in excess of 1000 kW shall provide to LES a copy of the Qualifying Facility's FERC Form No. 556 (Certification of QF Status for Small Power Production and Cogeneration Facilities), as completed and submitted to FERC, and the assigned FERC Docket Number.

In addition, as a member of the Southwest Power Pool (SPP), LES is required to assess all generator interconnection requests in coordination with SPP, regardless of their net power production capacity, to ensure there will be no adverse impacts to the SPP Transmission System.

Based on this determination:

Qualifying Facilities that are required to apply for interconnection with SPP shall provide to LES:

1. Documentation demonstrating that the Qualifying Facility has initiated a Generator Interconnection Request with the Southwest Power Pool by submitting the related Generator Interconnection Study Agreement in its entirety.

Qualifying Facilities that are not required to apply for interconnection with SPP shall provide to LES:

1. Documentation demonstrating the Qualifying Facility is in the process of obtaining site control of the project's proposed location adequate to commence construction;
2. Documentation showing the Qualifying Facility has applied for all required permits and/or zoning approvals and paid all applicable fees associated with the permits; and
3. A completed [LES Application for Review of Interconnection of Customer-Owned Generation](#), including the required deposit for power system studies, if applicable.