GIVENS PURSLEY LLP

LAW OFFICES
277 North 6th Street, Suite 200
PO Box 2720, Boise, Idaho 83701
TELEPHONE: 208 388-1200
FACSIMILE: 208 388-1300
WEBSITE: www.givenspursley.com

Direct Dial: (208) 388-1219
E-Mail: cew@givenspursley.com

March 15, 2002

VIA HAND DELIVERY

Scott Woodbury
Idaho Public Utilities Commission
472 W. Washington Street
P.O. Box 83720
Boise, ID 83720-0074

Re: Case No. GNR-E-02-01
Our File: 1314-47

Dear Scott:

I am enclosing the original and seven copies of Potlatch's Comments. Please date stamp the extra copy of this letter and return with our runner.

Sincerely,

Tina Smith

Tina N. Smith
Assistant to Conley E. Ward

Enclosure
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Conley E. Ward ISB #1683
GIVENS PURSLEY LLP
277 North Sixth Street, Suite 200
P.O. Box 2720
Boise, Idaho 83701-2720
Telephone: 208-388-1200
Facsimile: 208-388-1300
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UTILITIES COMMISSION

Attorneys for Potlatch Corporation

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE INVESTIGATION OF THE CONTINUED REASONABLENESS OF CURRENT SIZE LIMITATIONS FOR PURPA OF PUBLISHED RATE ELIGIBILITY (i.e., 1 MW) AND RESTRICTIONS ON CONTRACT LENGTH (i.e., 5 YEARS).	)	**CASE NO. GNR-E-02-01** **POTLATCH'S COMMENTS**

Potlatch Corporation ("Potlatch") files these Comments in response to the Idaho Public Utilities Commission's ("Commission") Notice of Investigation issued on February 5, 2002 in the above-entitled case. In its Notice of Investigation, the Commission invited interested parties to comment on Simplot's request that the Commission (1) increase the capacity size limit of qualifying facilities ("QF") entitled to published avoided cost rates from 1 megawatt to 10 megawatts, and (2) increase the duration of contracts for such QFs from 5 to 20 years. For the reasons stated below, Potlatch supports Simplot's request with one modification.

The existing size limitation on QFs entitled to published avoided cost rates was imposed by Commission Order No. 25884 issued in Case No. IPC-E-01-28 on January 31, 1995 (hereafter cited as Order No. 25884). In the next two years, the Commission adopted additional orders limiting the mandatory term of PURPA contracts to five years, first for projects larger than 1 megawatt, and then for all QFs regardless of size. *See* Order No. 26576 and Order No. 27111.

The rationale for these limitations was that emerging competition in the utility industry was driving wholesale electric prices down and Idaho utilities were relying solely on the short term wholesale market to supply additional capacity and energy. See Order No. 26576 at 3. Consequently, the Commission adopted the 1-megawatt and 5 year constraints in an attempt to strike,

> a reasonable balance between encouraging the development of independent, alternative energy technologies with the need to protect ratepayers from paying for resources which have not proven their cost effectiveness.

Order No. 25884 at 4. Unfortunately, with the passage of time it has become increasingly clear that the Commission's QF restrictions have not achieved their stated goals. They have neither encouraged the development of cost effective QFs nor protected utility ratepayers from inordinate price increases. In fact, they have had precisely the opposite effect by effectively shutting down the industry when continued resource development would have been a welcome hedge against exorbitant market prices.

As the Commission's Notice of Inquiry notes, conditions in the electric utility industry are now radically different than they were 5-7 years ago. Deregulation is no longer a realistic possibility for the foreseeable future, and wholesale electric markets in the West have proved far more volatile and risky than originally thought. While current prices have returned to more acceptable levels, there is little reason to think that volatility has been permanently eliminated, or that it would be prudent to rely on wholesale markets to supply Idaho's native load in the future. The unpredictable nature of hydroelectric conditions, and the recent reliance on natural gas for all new thermal generation virtually insure unpredictable price spikes will recur at some point. Wholesale prices in the Northwest have always been subject to wide swings in reaction to water supplies, and natural gas prices have been through repeated booms and busts for more than 25 years, with seasonal price variations of 100% or more quite common.

Consequently, the resuscitation of the Idaho QF industry is a matter of the utmost importance. There is no mystery about what is required to achieve this goal. The Commission must simply return to the *status quo ante* and require Idaho utilities to offer standard 20-year contracts at published rates to all QFs of whatever size. The demonstrable fact is that the utilities are either unable or unwilling to negotiate with QFs under any other scenario. Potlatch believes this is primarily due to the fact that the opaque and complex proprietary models employed to estimate avoided costs for larger projects are something of a shell game. These models invariably calculate avoided costs as equivalent to short term market prices. This means that a potential QF developer receives little or no value for its capacity. The utilities, for their part, are disinclined to agree to a more realistic price that would reflect long-term capacity values for fear of being criticized for executing an above market contract. Consequently, to the best of Potlatch's knowledge, there have been no new QF contracts of more than 1 megawatt signed by Idaho utilities since the orders of the mid 1990's were issued.

Instead Idaho utilities have relied on wholesale markets to meet short term load growth (with disastrous consequences) and then, when the need for new capacity has become apparent, they have invariably constructed their own plants, directly or through subsidiaries and affiliates, at costs greatly in excess of published QF rates. Idaho Power's 2002 addition of its 90 megawatt Mountain Home plant is a perfect example of the detrimental impact of this policy on ratepayers.

The cost of that plant, under the most favorable conditions, is estimated at $77/mwh, roughly 40% higher than its levelized 5 year QF rate of $55/mwh!

We will never know whether the Mountain Home plant could have been avoided with less expensive PURPA purchases. But we do know that the next plant won't be avoided by offering only 5-year contracts for less than 1-megawatt projects. The record of prior cases is replete with evidence that QF developers need something on the order of 20 year contracts to finance their projects. Size restrictions also need to be lifted completely so that developers can take advantage of economies of scale and produce sufficient capacity to avoid the need for new utility plants the size of Mountain Home's or larger.

For these reasons, Potlatch urges the Commission to lift the existing size and contract duration restrictions for QF developments for all Idaho utilities. In addition, Potlatch recommends that all QFs should be able to take advantage of published avoided cost rates. Idaho QFs have demonstrated that they can provide an inexpensive and stable source of generation that diversifies utility resource portfolios and supports Idaho industries. They can do so again if the Commission adopts appropriate reforms.

Potlatch submits that these remedies can be adopted without evidentiary hearings. If, however, the Commission finds that further evidentiary proceedings are warranted, Potlatch is prepared to submit evidence in support of the positions advanced in these comments.

RESPECTFULLY SUBMITTED this 15th day of March 2002.

Conley Ward

Conley Ward
Givens Pursley LLP
Attorneys for Potlatch Corporation

CERTIFICATE OF SERVICE

I hereby certify that on this 15th day of March 2002, I caused to be served a true and correct copy of the foregoing by the method indicated below, and addressed to the following:

Scott Woodbury
Idaho Public Utilities Commission
472 W. Washington Street
P.O. Box 83720
Boise, ID 83720-0074

_____U.S. Mail _____ Fax __X__ By Hand _____Overnight

Robert J. Lafferty
Blair Strong
P.O. Box 3727
Spokane, WA 99220

__X__U.S. Mail __X__ Fax _____ By Hand _____Overnight

Mark Widmer
Pacificorp
825 N.E. Multnomah, Suite 800
Portland, OR 98232

__X__U.S. Mail __X__ Fax _____ By Hand _____Overnight

John M. Eriksson
Stoel Rives LLP
201 S. Main Street, Suite 1100
Salt Lake City, UT 84111

__X__U.S. Mail __X__ Fax _____ By Hand _____Overnight

Barton L. Kline
Senior Attorney
Idaho Power Company
P.O. Box 70
Boise, Idaho 83707-0070

__X__U.S. Mail __X__ Fax _____ By Hand _____Overnight

Conley Ward
Conley Ward