

***U. S. Geothermal Inc.***

1509 Tyrell Lane, Suite B, Boise, ID 83706

Tel: 208.424.1027 Fax: 208.424.1030

RECEIVED  
FILED  
2003 MAY 13 AM 8:59  
IDaho PUBLIC UTILITIES COMMISSION

May 13, 2003

Mr. Scott Woodbury, Deputy Attorney General  
Idaho Public Utilities Commission  
472 W. Washington  
Boise, Idaho 83702

Re: Case No. GNR-E-03-1 – Answer to Idaho Power Company

Dear Commissioners,

This letter is provided in response to Idaho Power Company's ("IPC") April 24, 2003 letter to the Commission. My letter of April 17, 2003 was written to address the specific issue of the Independent Energy Producers of Idaho (IEPI) petition that requested an increase in the small QF size from 10MW to 30 MW. My letter did not address the January 2003 meeting held between USG and IPC since the meeting is not relevant to the IEPI petition. However, since the topic of this meeting was raised in IPC's response, I hereby submit that, in addition to USG receiving from IPC and discussing in detail two draft contracts (a levelized rate and a non-levelized rate version) at the meeting, the parties did discuss procedures for negotiating large QF contracts. USG is fully aware of the distinction between large and small PURPA projects.

IPC's response did not address the subject of the IEPI petition at all and ignored the technical aspects of my letter that strongly support a further increase in the QF size eligible for the avoided cost rates. IPC's assertion that "changing the dividing line between small and large QF projects" is somehow connected to USG not requesting a larger QF contract is confusing, especially since this subject was not addressed either in the IEPI petition or in my letter requesting reconsideration. Additionally, IPC stated that, "it is unreasonable for USG to claim that the Commission's long-standing policy of requiring large QF projects to negotiate project-specific contracts is a failure". I made no such statement.

I did assert that last year's changes to the PURPA rules have not stimulated the desired effect because only one small QF contract has been approved by the Commission and not a single large QF has been proposed to the Commission since the changes were implemented. It is still my belief that the Commission had expectations that a larger number of small QF projects in Idaho would be stimulated by their actions, which were a "step in the right direction" in my opinion, and not a "failure" as characterized by IPC.

The fact is, that the current avoided cost rate schedules have not stimulated small projects because the rates are not high enough. It is extremely difficult for geothermal, small hydro, wind and biomass (animal waste) to develop projects under the current price structure. The current price of natural gas (Sumas \$4.88/MMBtu) continues to be much higher than the price used in the avoided cost rate calculation (\$3.75/MMBtu) without the cost of firm delivery. NYMEX natural gas futures contracts for the next two years are also substantially above the \$3.75/MMBtu level. Without an increase in the posted rates to

reflect current gas prices, an increase in QF size eligible for the posted rates is needed to support renewable energy development.

The final point needing clarification is IPC's assertion that USG and IPC are the same size and economic stature. USG fits the definition of a small developer with limited resources. USG intends to attract risk capital for the development of the project once a Power Purchase Contract is in hand. USG has found that the definition of "small" is the problem and has determined that a 30MW geothermal power facility is small for the purposes of the posted rates established by the Commission.

USG respectfully submits this response. We trust that, as a small developer, our view is of value to the Commission in the ongoing effort to provide diverse, stable, long-term renewable sources of electric power to the people of Idaho.

Sincerely,

*Douglas Glaspey*

Douglas Glaspey  
CEO

Cc: Barton Kline, Idaho Power Company  
Peter Richardson, Richardson & O'Leary PLLC  
Steve Munson, Vulcan Power Company