Office of the Secretary
Service Date
March 12, 2009

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE JOINT PETITION TO APPROVE A STIPULATION TO ADJUST PUBLISHED IDAHO AVOIDED COST RATES FOR IDAHO POWER COMPANY, PACIFICORP, AND AVISTA CORPORATION	**CASE NO. GNR-E-08-02** **ORDER NO. 30738**

Pursuant to the Public Utility Regulatory Policies Act of 1978 (PURPA) and the implementing regulations of the Federal Energy Regulatory Commission (FERC), the Idaho Public Utilities Commission (Commission) has approved a Surrogate Avoided Resource (SAR) methodology for calculation of the avoided cost rates paid to PURPA qualifying cogeneration and small power production facilities (QFs) by Idaho Power Company, Avista Corporation and PacifiCorp. Avoided cost rates are the purchase price paid to QFs for purchases of QF capacity and energy.

On November 5, 2008, a joint Petition was filed by Idaho Power Company (Idaho Power) on behalf of itself, the Staff of the Idaho Public Utilities Commission (Staff), Avista Corporation dba Avista Utilities (Avista), PacifiCorp dba Rocky Mountain Power (PacifiCorp), U.S. Geothermal, Inc. (U.S. Geothermal), Exergy Development Group of Idaho LLC (Exergy), Tuana Springs Energy LLC (Tuana), and Idaho Windfarms LLC (IWF). Collectively, Petitioners seek Commission approval of a Stipulation proposing changes in generic non-fuel-related Surrogate Avoided Resource (SAR) variables and request modification of published avoided cost rates. Published rates are adjusted as new fuel-related SAR values become available from the Northwest Power and Conservation Council (NPCC; Council).

On February 5, 2009, PacifiCorp filed a Motion to Stay Decision Implementing Stipulation and an alternate motion to reduce the eligibility cap for published rates from 10 MW to 1 MW. The Commission in this Order denies PacifiCorp's Motions and approves the Stipulation and proposed changes to generic non-fuel variables for use in the Idaho SAR avoided cost methodology and calculation of published avoided cost rates. We also acknowledge a change in the utility-specific weighted cost of capital variable for Idaho Power resulting from its recent general rate case. Case No. IPC-E-08-10, Order No. 30722.

Background

On September 10, 2007, Idaho Power filed a Petition with the Commission to modify the methodology for determining fuel costs used to establish published rates for PURPA qualifying facilities (QFs). On December 28, 2007, the Commission, in Order No. 30480, stated as follows:

> . . . we find it reasonable, based on the written record developed in this case, to adopt Staff's proposed change for calculating the fuel cost component and published avoided cost rates. We further find that the proposed change in the methodology to calculate the fuel cost component and published avoided cost rates can be made independently (and in advance) of a review of the entire list of non-fuel methodology variables.
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> The Commission agrees that a periodic review of the other methodology variables is advisable, and accepts and encourages Idaho Power's offer to conduct a 2008 workshop to review the other non-fuel methodology variables. We also deem it advisable that PacifiCorp and Avista participate. We direct the Company to report its workshop findings to the Commission.

Order No. 30480, p. 11.

In accordance with Order No. 30480, Idaho Power hosted workshops on April 4, 2008, and July 23, 2008. At the conclusion of the July 23 workshop, the participants agreed to continue their discussions by e-mail with the goal of reaching a consensus on changes that should be made to the non-fuel-related costs of the SAR.

Non-fuel variables consist of two general categories – utility-specific variables and generic variables. Utility-specific variables relate to each utility's cost of capital. Because they are a direct outcome of general rate cases, the Petitioners agree that they are not an issue in this case. Generic variables relate to the SAR costs which set the basis from which Idaho's published avoided cost rates are determined. Adjustment of the non-fuel-related generic variables is the subject of this case and the Stipulation.

As a result of their continuing discussions, the Petitioners agreed on interim values derived from using a "base year" of 2008 in the model for the non-fuel-related costs of the SAR. Those values are depicted below and are set out in Paragraph 4 of the Stipulation:

Non-Fuel-Related SAR Costs	Current	Proposed
Heat Rate	7,100	7,100
Equivalent Availability Factor	92%	86.5%
Capital Cost	$802/kW	$1,100/kW
Variable O&M	$3.47/MWh	$3.86/MWh
O&M Escalation Rate	2.7%	2.0%
SAR Escalation Rate	2.1%	1.4%
Fixed O&M	$13.24	$14.71
General Inflation	2.7%	2.0%

Published avoided cost rates are adjusted as new fuel-related SAR values become available from the Northwest Power and Conservation Council or the Council's general advisory committees. A new Council natural gas price forecast was released on December 29, 2008. In their filing with the Commission on November 5, 2008, Petitioners recommend that the generic non-fuel-related values of published rates be implemented at the same time the Commission approves new fuel-related avoided cost components based on the Council's median forecast of natural gas prices. Stipulation ¶¶ 5, 7.

On November 26, 2008, the Commission issued a Notice of Petition and Modified Procedure for this case and established a December 17, 2008, deadline for filing written comments or protests. No comments or protests were filed by the deadline.

On January 23, 2009, the Council released its Sixth Power Plan planning assumptions for advanced combined cycle power plants.[1] Included in the Council's assumptions are the following:

Capital Cost	$1,313 per kW ($1,207 + $106 adder for AFUDC)
Fixed O&M	$14.57 per kW
Variable O&M	$1.77 per MWh

The Commission Staff computed revised avoided cost rates that incorporated the Council's gas forecast and the foregoing combined cycle planning assumptions of the Council, and, on January 26, 2009, circulated those computations for review by the utilities. Avista, Idaho Power and PacifiCorp all submitted electronic reply comments to Staff. Idaho Power and Avista reviewed the draft input values and mathematical calculations and found them to be accurate. Should the final values in the Council's Sixth Power Plan materially alter the calculated avoided cost rates,

[1] The Council's figures were presented in year 2006 dollars, and have been converted to year 2008 dollars for purposes of computing Idaho avoided cost rates.

both Idaho Power and Avista anticipate that the avoided cost rates would be revised. PacifiCorp's comments and recommendations propose a change in methodology and are detailed in its Motion to Stay Decision Implementing Stipulation filed February 5, 2009. PacifiCorp is concerned that the overall avoided cost price that the SAR methodology yields is too high. The rate, it contends, exceeds those included in the Company's current Integrated Resource Plan (IRP) and that of recently acquired renewable resources. PacifiCorp contends that the Council's January 26, 2009, planning assumptions are representative of elevated pricing and bullish economic perceptions that are not representative of the dramatic recessionary environment that is forecast by most experts to be deep and long. PacifiCorp notes that the impact of using the draft medium NPCC fuel curve is approximately two-thirds of the 27% increase in avoided costs. PacifiCorp believes that the Council's medium natural gas price curve issued December 29, 2008, yields an avoided cost that is too high, and is not a true reflection of current forward natural gas prices and projections. PacifiCorp believes that the low and medium-low NPCC price forecasts are better indicators of current and projected market conditions than the medium case.

PacifiCorp requests that the Commission (1) stay the implementation of the Stipulation until the parties have had a chance to discuss the effects that the current economic downturn will have on the avoided cost price in Idaho and (2) re-evaluate its use under the SAR avoided cost methodology of the medium NPCC draft price curve . . . so that Idaho customers are not impacted by potentially above market QF prices. At a minimum, PacifiCorp recommends that the Commission postpone approval of the gas curve component until the draft fuel prices for the Council's Sixth Power Plan are final. Alternatively, should the Commission determine it necessary to change avoided costs based on the current Northwest Planning and Conservation Council's forecast, PacifiCorp requests that these avoided cost rates apply only to small non-fuel projects of 1 MW or less.

On February 10, 2009, Black Canyon LLC, a wind-power developer in Bonneville County, Idaho, petitioned for intervention. Order No. 30729. On February 20, 2009, Black Canyon filed an answer to PacifiCorp's Motion contending that PacifiCorp does not allege the existence of mistake or misunderstanding and is not entitled to relief from the Stipulation. Black Canyon states it has made substantial progress in project development including among other things: Completion of (a) a System Impact Study, (b) a Facilities Study, and (c) an

Interconnection Agreement. Black Canyon intends to seek a power purchase agreement from PacifiCorp and has been awaiting the establishment of new published rates. Black Canyon urges the Commission to approve the Stipulation.

On February 27, 2009, Idaho Windfarms filed an answer to PacifiCorp's Motion. IWF accuses PacifiCorp of bad faith and of reneging on its Stipulation agreement.

Commission Findings

The Commission has reviewed and considered the filings of record in Case No. GNR-E-08-02 including the Joint Petition and Stipulation, the filed comments and recommendations of Idaho Power, PacifiCorp, Avista and Commission Staff and PacifiCorp's Motion to Stay Decision Implementing the Stipulation. We have also reviewed and considered the reply comments of Black Canyon and Idaho Windfarms to PacifiCorp's Motion, the underlying Idaho SAR avoided cost methodology and the Council's recently released planning assumptions and natural gas price forecast for its Sixth Power Plan.

A Stipulation was filed in this case proposing interim changes to generic non-fuel-related SAR costs. The Petitioners recommended that implementation coincide with the anticipated change in NPCC's forecast of natural gas prices and that the non-fuel values be updated as they become available from the Council or the Council's general advisory committees.

PacifiCorp in its Motion to Stay believes that use of the Council's January 23, 2009, planning assumptions and December 29, 2008, medium price natural gas forecast results in published avoided cost rates that are too high. PacifiCorp has filed a Motion recommending

1. That the Commission stay implementation of any change in avoided cost rates pending further review of the Council's forward price curves and planning assumptions for advanced combined cycle power plants.

2. That the Commission re-evaluate its use in the SAR avoided cost methodology of the medium NPCC draft price curve. At a minimum, PacifiCorp recommends that the Commission postpone approval of the medium gas curve until the draft becomes final.

3. Alternatively, PacifiCorp recommends that the 10 MW eligibility cap for published avoided cost rates be reduced to 1 MW.

The question raised by PacifiCorp in its Motion filing is whether the avoided cost rates calculated under the SAR methodology are too high. FERC regulations define "avoided costs" as "the incremental costs to an electric utility of electric energy or capacity or both which, but from the purchase from the qualifying facility, such utility would generate itself or purchase from another source." 18 C.F.R. § 292.101(b). Under PURPA, utilities cannot be required to pay more than the avoided cost for QF purchases. 18 C.F.R. § 292.304(a)(2). Rates must be (1) "just and reasonable" to utility ratepayers, (2) in the public interest, and (3) non-discriminating against QFs. 18 C.F.R. § 292.304(a)(1)(i)(ii). The SAR methodology for calculating avoided cost rates resulted from a lengthy regulatory process that included PacifiCorp. The selected surrogate, a combined-cycle combustion turbine, is one of the resources that Idaho's electric utilities are either already using or planning to use to serve load growth. This includes PacifiCorp, as discussed in their Integrated Resource Plan.

The question as to reasonableness of rates needs to be based on a foundation and supported by evidence. A single point in time 12-year price strip from the New York Mercantile Exchange (NYMEX) for Henry Hub is not justification for the relief requested by PacifiCorp nor reason to find that published rates for 20-year contracts calculated under our approved methodology no longer represent the utility's avoided costs. The record in this case does not support the changes in the SAR avoided cost methodology or published rate eligibility cap recommended by PacifiCorp. Nor does PacifiCorp present a persuasive and compelling reason to defer a Commission decision regarding a change in the published rates until a record can be built. The uncertainty that would result from granting the relief requested by PacifiCorp is justification and reason to proceed in a prudent and judicious manner and to require a greater offering of proof than anecdotal evidence. The recent and rapid decline in global economic conditions is occasion for all entities to reconsider their business and regulatory practices. We advise PacifiCorp and other interested parties that under Commission Rules of Procedure a proceeding to revisit or change the avoided cost methodology can be initiated at any time by petition of any utility or QF. IDAPA 31.01.01.053.

Stipulation ¶ 5 states that the parties are willing to accept the changes in non-fuel-related SAR costs proposed in the Stipulation for setting avoided cost rates, with the understanding that revised SAR values will be adopted as they become available from the Northwest Power and Conservation Council or the Council's general advisory committees. On January 23, 2009, the Council in developing its Sixth Power Plan changed its planning assumptions for advanced combined cycle power plants. In addition to the three assumptions noted above and incorporated in Staff's proposed computations shared with the utilities, the Commission notes, as did Avista, that the Council also proposes a new Equivalent Availability Factor (i.e., 90%). We find it reasonable to approve this change in the EAF. The new Heat Rate proposed by the Council cannot, under the SAR methodology, be adopted without adjustment and further record. The Escalation and Inflation Rates in the Stipulation are not Council-generated numbers. The Commission finds the Stipulation and its negotiated terms to be reasonable. We accordingly find it reasonable to implement the Stipulation and to adopt the proposed changes with updated Council planning assumptions for Equivalent Availability Factor (90%), capital costs ($1,313 per kW), variable O&M ($1.77 per MWh) and fixed O&M ($1.77 per MWh). The timing of this change is to coincide with the change in the fuel cost component of published rates. We will consider that change in Case No. GNR-E-09-01[2] and incorporate the generic non-fuel variable changes in our calculation of the resultant rates.

The Commission notes that the conclusion of a general rate case affects avoided cost rates because cost of capital figures are used in avoided cost computations in accordance with the approved methodology. The appropriate time to incorporate new weighted cost of capital figures is following a general rate case. A final Order in Idaho Power's general rate case was issued on January 30, 2009, (Case No. IPC-E-08-10, Order No. 30722) reflecting a change in the Company's weighted cost of capital from 7.852% to 8.180%. The published rates for Idaho Power in Case No. GNR-E-09-01 incorporate this change in the Company's weighted cost of capital.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over Idaho Power Company, PacifiCorp dba Rocky Mountain Power and Avista Corporation dba Avista Utilities, electric utilities, pursuant to the authority and power granted it under Title 61 of the Idaho Code and the Public Utility Regulatory Policies Act of 1978 (PURPA).

The Commission has authority under PURPA Sections 201 and 210 and the implementing regulations of the Federal Energy Regulatory Commission (FERC), 18 C.F.R. §

[2] A separate case docket (GNR-E-09-01) has been initiated by Staff to implement a change in the published avoided cost rates under existing methodology. The single change proposed in Case No. GNR-E-09-01 is adoption of the Council's December 29, 2008, medium case (east-side delivered) natural gas price forecast. (Draft Fuel Prices for the Sixth Power Plan.)

292, to set avoided costs, to order electric utilities to enter into fixed-term obligations for the purchase of energy from qualified facilities and to implement FERC rules.

O R D E R

In consideration of the foregoing and as more particularly described above, IT IS HEREBY ORDERED and the Commission hereby denies PacifiCorp's Motion to Stay Decision Implementing Stipulation and its alternative motion to lower the eligibility cap for published rates from 10 MW to 1 MW.

IT IS FURTHER ORDERED and the Commission approves the changes in generic non-fuel cost variables to the SAR methodology set forth in the Stipulation and updated for the Council's January 23, 2009, planning assumptions as more particularly described above.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 12th day of March 2009.

MACK A. REDFORD, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

JIM D. KEMPTON, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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