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Chas. F. McDevitt  
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September 18, 2009

***Via Hand Delivery***

Jean Jewell, Secretary  
Idaho Public Utilities Commission  
472 W. Washington St.  
Boise, Idaho 83720

**Re: Sagebrush Energy LLC  
Case No. GNR-E-09-03**

Dear Ms. Jewell:

Enclosed for filing in the above matter, please find an original and seven copies of Comments of Sagebrush Energy in Response to Notice of Review.

Kindly return a file stamped copy to me.

Very Truly Yours,  
McDevitt & Miller LLP

  
Dean J. Miller

DJM/hh  
Enclosures

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Attorney for *Sagebrush Energy LLC*

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF A REVIEW OF  
THE SURROGATE AVOIDABLE  
RESOURCE (SAR) METHODOLOGY  
FOR CALCULATING PUBLISHED  
AVOIDED COST RATES

**CASE NO. GNR-E-09-03**

**COMMENTS OF SAGEBRUSH  
ENERGY IN RESPONSE TO NOTICE  
OF REVIEW**

COMES NOW Sagebrush Energy LLC (Sagebrush) and submits the following  
Comments in response to the Commission's Notice of Review of Avoided Cost  
Methodology, dated August 6, 2009 (Notice).

Sagebrush is an independent renewable energy company that is working across  
the Intermountain West to develop wind projects that are sensitive to the concerns of  
local communities. Sagebrush is in the process of developing a wind fueled electric  
energy generating facility, known as the Norris Hill Project, located in Madison County,  
Montana. The Norris Hill Project is a Qualifying Facility within the meaning of the  
Public Utility Regulatory Policies Act (PURPA). Sagebrush has been actively working  
with Avista on the Norris Hill Project since March 2007 and formally engaged in PURPA  
contract negotiations with Avista for the execution of a long term purchase power  
agreement in February 5, 2009.

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In its Notice the Commission poses the following questions:

- “1. Does the present SAR methodology for published avoided cost rates need to be modified or augmented? Yes or No.
2. If answer to Question 1 is no, please provide the basis for your answer.
3. If answer to Question 1 is yes, please provide the basis for your answer.”

As qualified and explained in its answer to Question No. 2, Sagebrush believes the correct answer to Question No. 1 is “No”. Having answered Question No. 1 in the negative, Sagebrush does not address Question No. 3.

#### **Explanation of Answer to Question No. 1.**

Sagebrush is interpreting Question No. 1 as asking whether the current surrogate avoided resource—a natural gas fired combine cycle combustion turbine (CCCT)—should be changed to some other generating resource such as wind generation and, as noted, believes the correct answer is “No” for among others, the following reasons:

##### **1. There Is No Such Thing As A Perfect SAR.**

Because an SAR is a forward looking estimation of costs a utility will avoid by acquiring a PURPA resource, it is unreasonable to expect that any SAR will be perfectly correct in its prediction of future costs. The Commission recognized the imperfect nature of a surrogate avoided resource in Order No. 25884 when it said, “We recognize that, by its very nature, a SAR is a generation facility that may never be built”. (*Application of Idaho Power Company for Approval of Prices, Order No. 25884*).

And, over the long term the current SAR has been reasonably accurate in predicting actual utility costs. The undersigned is informed by Commission Staff that Staff has compared current avoided cost rates with prices produced by utility AURORA cost model runs and finds them to be within a range of reasonableness.

Viewed in this way, Sagebrush suggests that the Commission should be cautious about abandoning the existing SAR in favor of a new SAR that may be equally or more imperfect. Put differently, unless the Commission can conclude there is a strong likelihood that some new, but imperfect, SAR will be a measurable improvement over the current method, it should not embark on the effort.

**2. The Current SAR Has Been Appropriately Adjusted For The Characteristics Of Wind Generation.**

The Commission has approved adjustments to the CCCT SAR to take into account unique characteristics of wind generation. In Order No. 30500, a wind integration deduction to published rates of between 7%—9% was approved to compensate for the cost of integrating the variable wind resource. (*Petition of Avista Corporation to Revise PURPA Obligations*, February 20, 2008).

The Commission has also allowed the avoided cost payment determined by the SAR method to be weighted seasonally, such that the weighted average of all seasons equals the published avoided costs, (assuming steady output from the QF throughout the year). Because of the seasonal variation in the wind profile, however, wind QFs can expect to receive a weighted average price that is \$1.25 below the published avoided cost on average. (*See Bolinger, Lawrence Berkeley National Laboratory, An Examination of Avoided cost in Utah*, 2005).

In short, to the extent thought necessary, the current SAR methodology can be adjusted to recognize wind generation attributes. There is not a compelling need for an entirely new, and unproven, SAR methodology.

**3. There Is Not Any Empirical Evidence To Suggest A Wind SAR Would Be More Accurate.**

To Sagebrush's knowledge, among states that used a surrogate avoided resource as the method for computing avoided costs, no state has adopted a wind SAR, and in consequence, there is not an existing body of knowledge from which to borrow. To develop a wind SAR from scratch, the Commission would be required to make an inquiry into, among others, questions such as:

- Where would the wind SAR be located?
- If located remote from load centers, should transmission cost be taken into account?
- What would be the nameplate capacity of the SAR?
- What would be the assumed net capacity factor of the wind SAR?
- What would be the capital cost of a wind SAR?
- What are the fixed operation and maintenance costs of a wind SAR?
- What are the variable operation and maintenance costs of a wind SAR?

The administrative cost of these inquiries would be high. Over the ten plus years of experience with the CCCT SAR, the Commission Staff and interested parties have gained experience and accumulated knowledge regarding reasonable values for inputs to the existing methodology. A similar body of knowledge does not exist with respect to a wind SAR.

This high administrative cost will be a barrier to participation in the Commission inquiries by small QF generators, such as Sagebrush. Independent project developers, in

the right circumstances, may have access to capital for construction of projects. Unlike utility companies, they do not have unlimited resources for participation in regulatory proceedings.

**4. A CCCT Remains The Resource Of Choice For Utilities Regulated By The Commission.**

The focus of the avoided cost analysis is, of course, upon the costs that are avoided by the utility by accepting a PURPA resource, not upon the cost characteristics of the PURPA resource. (18 C.F.R. 292.101(b)(6)). The Commission has, for many years, measured these avoided costs based on the estimated cost a utility would incur in constructing a CCCT facility. In its Notice, the Commission observes that in Order No. 25884, the Commission found that a CCCT is the “resource of choice” and thus an appropriate basis for estimating costs avoided by the utility.

The most compelling, and irrefutable, evidence that a CCCT remains the “resource of choice” stems from the simple fact that a CCCT is the resource most recently approved by the Commission for construction. (*See, In the Matter of Idaho Power Company’s Application for a CPCN for the Langley Gulch Power Plant*, Order No. 30892, September 1, 2009).

In testimony filed in the *Langley Gulch* case, Staff Witness Sterling analyzed in depth the available resource options and concluded that a CCCT was the preferred choice. (Direct Testimony of Rick Sterling, June 19, 2008, Pgs 23—30). And, Witness Sterling concluded that wind generation is not likely to fully meet base load needs:

“Q. Do you believe that PURPA projects (QFs) are a viable means of meeting future base load needs of Idaho Power?”

A. No, I do not believe they can be planned on as a reliable option for meeting base load needs. Nearly all of the recent PURPA development has been small wind projects. It is unknown how much additional capacity might be developed and when such development might occur. The majority of projects for which contracts have been signed in recent years have yet to come online and have had their contractual online dates extended. The recent substantial increase in avoided cost rates for PURPA projects will likely stimulate some new development, but the amount and timing of new projects is unknown. The timing and pace of PURPA development is not within Idaho Power's control and is not dictated by the Company's need for new generation.

Furthermore, because nearly all new QFs are wind projects, it is unlikely that they could prove to be an acceptable substitute for a new base load resource even if they could be timely developed. Because wind generation is intermittent, there is no guarantee that the generation would be available during all of the hours when it would be needed.”

Accordingly, a CCCT remains the best estimate of costs a utility would avoid through purchase of energy from a Qualifying Facility.

**5. Abandoning An Established SAR Methodology In Favor Of An Unproven One Violates The First Law Of Wing Walking.**

The first law of wing walking is: “Do not let go of one hand support until you have the other hand firmly attached to another support”. Failure to observe this law can have disastrous consequences, in the wing walking business.

Similarly, in the policy making business, one should be reluctant to let go of an established policy unless a new and better policy is firmly in hand. A wind SAR does not meet that test.

**CONCLUSION**

For the reasons cited herein, Sagebrush respectfully requests that the Commission conclude there is not currently a need for change to the Surrogate Avoided Resource and that the Commission enter its Order closing this generic docket.

DATED this 16 day of September, 2009.

**SAGEBRUSH ENERGY LLC**

By:  \_\_\_\_\_  
Dean J. Miller  
Attorney for *Sagebrush Energy LLC*

**CERTIFICATE OF SERVICE**

I hereby certify that on the \_\_\_\_ day of September, 2009, I caused to be served, via the method(s) indicated below, true and correct copies of the foregoing document, upon:

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BY: Heather Hule, legal asst.  
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