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IDAHO PUBLIC
UTILITIES COMMISSION

IN THE MATTER OF THE JOINT)
PETITION OF IDAHO POWER, AVISTA)
CORPORATION, AND ROCKY) CASE NO. GNR-E-10-04
MOUNTAIN POWER TO ADDRESS)
AVOIDED COST ISSUES AND TO)
REDUCE THE PUBLISHED AVOIDED) ROCKY MOUNTAIN POWER'S
COST RATE ELIGIBILITY CAP) COMMENTS
)
)

On December 3, 2010, the Idaho Public Utility Commission (“Commission”) issued Order No. 32131 which directed Idaho Power Company, Avista Corporation, and PacifiCorp dba Rocky Mountain Power (“the Utilities”) and interveners to address three issues concerning the Utilities’ Joint Petition request to reduce the published avoided cost eligibility cap. Rocky Mountain Power submits its comments addressing the Commission’s three issues posed in Order No. 32131.

I. INTRODUCTION

On November 5, 2010, the Utilities filed a Joint Petition requesting the Commission initiate an investigation into various Public Utility Regulatory Policies Act (PURPA) Qualifying Facilities (QF) avoided cost pricing, methodology, and contract process issues raised at a public workshop held November 3, 2010. As part of the Joint Petition, the Utilities requested that the Commission issue an Interlocutory Order to reduce the eligibility cap for Commission-set published avoid cost rate for QFs from 10 average megawatts (aMW) to 100 kilowatts (kW) effective immediately. In addition to

the issues of incorporating and integrating wind generation in large amounts, the Utilities identified other areas of concern that were voiced in the workshop. These other issues include:

1. system reliability;
 2. operational control;
 3. ownership and valuation of RECs;
 4. the lack of capacity provided by intermittent resources;
 5. the need to build/acquire capacity on the system;
 6. the associated transmission infrastructure and upgrades needed to bring additional QF generation to load;
 7. the interconnection and transmission service request process;
 8. the mechanical availability guarantee (MAG) provision;
 9. the posting of security;
 10. liquidated damages;
 11. a standard contract template;
 12. the impact of QF generation on the integrated resource planning (IRP) process;
- and,
13. the increased size and scale of QF projects.

On December 3, 2010, the Commission issued Notice of the Joint Petition and Notice of Modified Procedure, Intervention Deadline, and Oral Argument setting a Modified Procedure comment schedule. Under Commission Order No. 32131, Case No. GNR-E-10-04, the Commission will establish a record from which to make a decision

regarding the Joint Petition and Motion's request to lower the published avoided cost rate eligibility cap. Comments are due December 22, 2010, Reply Comments are due January 19, 2011, and Oral Argument is scheduled for January 27, 2011. Additionally, in that Order, the Commission established that its decision regarding an adjustment to the published avoided cost eligibility cap would be effective as of December 14, 2010. Finally, the Commission requested comments from the parties on three specific topics:

- (1) the advisability of reducing the published avoided cost eligibility cap;
- (2) if the eligibility cap is reduced, the appropriateness of exempting non-wind QF projects from the reduced eligibility cap; and
- (3) the consequences of dividing larger wind projects into 10 aMW projects to utilize the published rate.

II. BACKGROUND

While PURPA was intended to facilitate QF development, Congress intended that ratepayers be neutral with respect to such purchases. PURPA provides that a utility is not required to pay more than its avoided costs for QF purchases. Avoided costs refer to the costs the utility would have incurred to purchase energy and capacity but for the QF purchase. The intent of these provisions is to make sure that the utility's customers are not forced to pay more for QF power than power acquired from other resources. Ensuring ratepayer neutrality is not only a PURPA mandate; it is inherent in the Company's basic responsibility to ensure low-cost reliable power supply to its customers.

The Commission has authorized two methods for establishing the avoided cost rate that a QF is entitled to receive in a power purchase agreement with RMP in Idaho.

The first method applies to QFs that generate less than 10 aMW on a monthly basis. The Surrogate Avoided Resource (SAR) methodology is set by the Commission based on a natural gas powered combined cycle combustion turbine and avoided cost prices are set by the Commission for each utility using the Northwest Power and Conservation Council latest plan for assumptions on capital and operating costs. The second method applies to QFs generating over 10 aMW on a monthly basis. This method is referred to as the Integrated Resource Plan (“IRP”) based methodology. Under the IRP methodology the QFs are modeled in the utility’s approved power supply modeling program to determine avoided cost prices specific to the project’s operating characteristics. The IRP methodology inherently produces avoided cost prices that specifically address the uniqueness of the proposed QF resource in the Company’s resource portfolio and is more representative of the incremental cost that RMP is avoiding with the QF resource in operation.

Rocky Mountain Power submits the following comments to the Commission’s three issues.

III – COMMENTS IN SUPPORT OF REDUCING THE ELIGIBILITY CAP FOR PUBLISHED AVOIDED COST PRICES

Topic 1 - Advisability Of Reducing The Published Avoided Cost Eligibility Cap

Rocky Mountain Power first wind QF contract was a single 20 MW wind QF contract in 2005 and less than 50 MW of wind QF requests in Idaho. The single 20 MW wind QF project was not built. This compares to today where Rocky Mountain Power

has 44 MW of Idaho wind QF contracts executed and under construction, and another 445 MW of standard wind QFs requesting contracts. The magnitude of standard wind QF project development in Idaho has reached monumental levels and at the current published avoided cost levels will have a significant impact on the net power cost portion of its customer's rates. Exhibit RMP-1 provides two graphs comparing QF projects since the implementation of PURPA on both a system and an Idaho only level. As shown in both charts, the current queue of proposed Idaho wind QFs is greater than the Company's total system executed non-wind QF contracts and likewise, greater than the Company's system wind QF under contracts. On an Idaho only level, the proposed wind QF contracts are 50 times the MW capacity of executed non-wind contracts and 10 times the MW capacity of wind projects under contract. These proposed projects are not small family or community-based developers doing a single project, but rather sophisticated developers with legal and technical assets who have disaggregated large projects into multiple projects to meet the 10 aMW threshold. The total 445 MWs of proposed QF projects in Idaho are under the control of 4 developers.

Rocky Mountain Power is primarily concerned with the increase in power supply costs, and the resulting increase in rates to its customers that the current published avoided cost using the SAR methodology causes as compared to applying the IRP methodology to the proposed QF or through acquisition from a competitive bidding process. Rocky Mountain Power, through its IRP, and competitive bidding process outside of PURPA has acquired substantial amounts of power generated by renewable resources, principally from generation using wind as its motive force. In addition, Rocky Mountain Power's majority of QF project requests in Idaho over the past five years have

been wind resources. What the Company is seeing is that its wind resources acquired through our competitive bidding process, both owned or through power purchase agreements, are at a lower cost than current Idaho published avoided cost prices and these transactions also transfer those resource's renewable energy credits ("RECs") to the Company. Likewise, a large QF project using the IRP-methodology addresses the specific operating characteristics of the QF as part of the Company's resource portfolio, resulting in avoided cost prices tied to that specific resource and generally, at a lower cost than the SAR-derived avoided cost prices.

Rocky Mountain Power is also concerned with the impact on its electrical system and reliability in adding such a large volume of wind. Historically the generation threshold for published avoided cost rates had been low, and the costs associated with capacity contribution and integration for an intermittent resource have been deemed to have minimal impact on the Company's electric system. With current thresholds increased in Idaho to 10aMW which equates to a wind QF project in the nameplate capacity range of 20 to 30MW, the cost to the Company and thus to the customer for integration, capacity contribution, and transmission capacity are of greater significance and need to be revisited in the determination of avoided costs for intermittent resources.

In those cases where a resource is added in Idaho and there is insufficient load to absorb or use the generation, the added QF power output must be moved elsewhere to be useful to the system and serve the Company's network load. This is primarily expected to be the case in the off-peak time period when customer loads are normally lower and cannot absorb the wind generation, but also may occur with the addition of significant numbers of 10 aMW QF projects or a small number of large QF projects. If there is

inadequate transmission capacity to move the power elsewhere in the system, the Company has three options: (1) back down use of its own low-cost resources to serve the load in the area, (2) upgrade the transmission system to accommodate moving the resource output to load elsewhere, or (3) curtail the wind QF project. In the first case, the avoided cost pricing that the QF receives should be adjusted down to reflect the Company's obligation to accept the QF's higher cost power and back down the Company's lower cost resources such as a coal plant. In the second case, if a new QF resource has triggered a transmission system upgrade, the QF should bear the cost of the transmission system upgrade to move their power out of the load pocket to serve the network load. In the third case and penultimate scenario, where there are no Company resources to curtail, the Company may be faced with not being able to accept QF power and curtailing the wind QF resource itself. While the Company recognizes that locational transmission constraints and the need for transmission upgrades should not prevent project development, the incremental cost reflecting the constraint or upgrade should be borne by the developer and not the ratepayer as is presently the case. Analysis of transmission system constraints and the cost of options for dealing with those constraints should be made available to QF project developers as part of the QF pricing and contract process so that appropriate adjustments can be made.

Reducing the published rate eligibility cap to 100 kW provides for all QF contracts to have individually determined avoided cost prices based on each QF's specific characteristics. The IRP methodology more closely aligns the avoided cost with the individual QF which addresses many of the issues raised in the Joint Motion. Using the IRP-methodology provides a method that allows the continued development of QF

projects, but in a manner that is better for customers. The Commission should balance the desire to stimulate QF development with the mandate that customers not pay more for QF power than for other resources. The Commission should acknowledge that payment of standard rates is likely to result in a subsidy for most projects because it does not take individual operating characteristics into account. The Commission should also acknowledge that the rationale for standard rates is to minimize transaction costs for small projects. In balancing these factors, the Commission should limit any increase in the ceiling for standard rates to include only such projects that may otherwise be unable to afford the transaction costs of negotiating an individualized purchase rate.

Although the Company is not aware of an instance in which QF costs were disallowed by this Commission or any other jurisdiction where the Company does business, disallowance remains a real concern for the Company. QF power purchase costs tend to be higher than other market resources, sometimes significantly higher. This gives rise to a concern that they will be disallowed as an above-market cost associated with new renewable resources. Further, as addressed above, standard purchases result in an inherent overpayment to the extent that the project does not offer the same delivery attributes as the proxy resource on which the avoided costs are calculated. As standard pricing becomes available to larger projects for longer contract terms, the magnitude of this overpayment increases. PacifiCorp is concerned that some portion of its QF purchase costs may be subject to disallowance. Much of what is commonly mistaken as utility reluctance to contract with QFs is in reality a concern of the utilities part that they will be exposed to potential regulatory disallowances.

The approval of a temporary reduction in the eligibility cap for published avoided cost rates in this proceeding would allow each utility to prepare and demonstrate the need for such adjustments in the determination of avoided costs on a permanent basis.

Topic 2 - Appropriateness of Exempting Non-Wind QF Projects From The Reduced Eligibility Cap

The second issue that the Commission requested comments upon is, “if the eligibility cap is reduced, the appropriateness of exempting non-wind QF projects from the reduced eligibility cap.” Order No 32131 at 5. The Company asserts that the published avoided cost rate eligibility cap reduction should apply to all PURPA QF projects. While the wind QFs in Idaho represent the bulk of the current proposed QF projects, many of the same issues could be caused by non-wind QFs. For example, Rocky Mountain Power has a current request from a municipal waste QF project that started out as a 17 MW project. After receiving avoided cost prices using the Commission-approved non-standard avoided cost pricing methodology, the QF declined those prices and revised its request to be a QF project that would deliver at or below 10 aMW in order to receive the published avoided cost prices which are significantly higher than the non-standard avoided cost prices. They also communicated that they may consider adding a second project at the site in the future. In effect, the non-wind QF is seeking to disaggregate their project to qualify for the published avoided cost prices. A reduction in the published rate eligibility should apply equally to all QF projects.

Topic 3 - The Consequences of Dividing Larger Wind Projects Into 10 aMW Projects To Utilize The Published Rate

The disaggregation of large wind projects into smaller QF projects has significant consequences on the Company's net power cost and thus, on customers' rates over a long term basis. Rocky Mountain Power, through its Integrated Resource Plan (IRP), and competitive bidding process outside of PURPA has acquiring substantial amounts of power generated by renewable resources, principally from generation using wind as its motive force. In addition, Rocky Mountain Power's majority of QF project requests in Idaho over the past five years have been wind resources. The Company's wind projects acquired through its competitive bidding process, both owned or through power purchase agreements, are being acquired at a lower cost than current Idaho avoided cost prices, and these transactions also transfer the resource's renewable energy credits (RECs) to the Company. The Company's current experience in Idaho and across its service territory is that some wind projects that were not successful in the Company's renewable request for proposals (RFP), chose to pursue QF certification for avoided cost pricing on their project and re-approach the Company as a QF. With the increase in the project size cap for published avoided cost rates, many wind developers are tailoring their initial project into separate smaller projects to fit under the 10 aMW cap in Idaho. Because a contract under the published QF rate has minimal flexibility to adjust pricing or the terms and conditions in the contract, wind resources have found the QF path more conducive to gaining a long term power purchase agreement without the project specific adjustments they would encounter in a competitive RFP process or through the over 10 aMW QF avoided cost methodology. This divergence between a competitive process for acquiring the lowest

cost wind resource, or at a minimum, applying the project specific characteristics through the IRP-methodology and the default pricing nature of the QF process, does not account for system impact costs and will lead to Idaho ratepayers and potentially other customers on the Company's system of carrying the burden of a higher-cost (i.e., above avoided cost) QF resource than they would otherwise pay for. Therefore the Company believes a temporary reduction in the eligibility cap for published avoided cost should be put in place to allow for investigation of how the gap between the competitive process, the IRP-methodology and the SAR-methodology process can be closed. The Company has to date, executed seven Idaho wind QF contracts by two developers that were not selected in a RFP and later submitted requests for Idaho published rate contracts. As an example, the Company has recently executed and is in the process of filing five wind QF PPAs with the Commission for their review and decision. The developer has a history with the Company. Originally, this developer submitted a bid into the Company's 2009R renewable RFP as a 151 MW project. The project did not make the RFP short-list of bids. In March 2010, the developer requested QF pricing for two 78 MW projects. The projects were priced using the Commission-ordered methodology for large Idaho non-standard QFs. RMP prepared and delivered avoided cost prices which the developer rejected as being too low. In May 2010, developer resubmitted five individual projects totaling 133 MW for Idaho avoided cost pricing. The five projects, which share a common interconnection under the original single large project's interconnection agreement and have a single owner, complied with all PURPA's regulation including the 1-mile separation requirement and met all Idaho rules and Commission Orders. Five published avoided cost contracts were prepared and executed. The Company points out that at the

avoided cost price difference between the SAR-methodology compared to the IRP methodology results in the Company paying an additional \$10 million per year for the power from the projects.

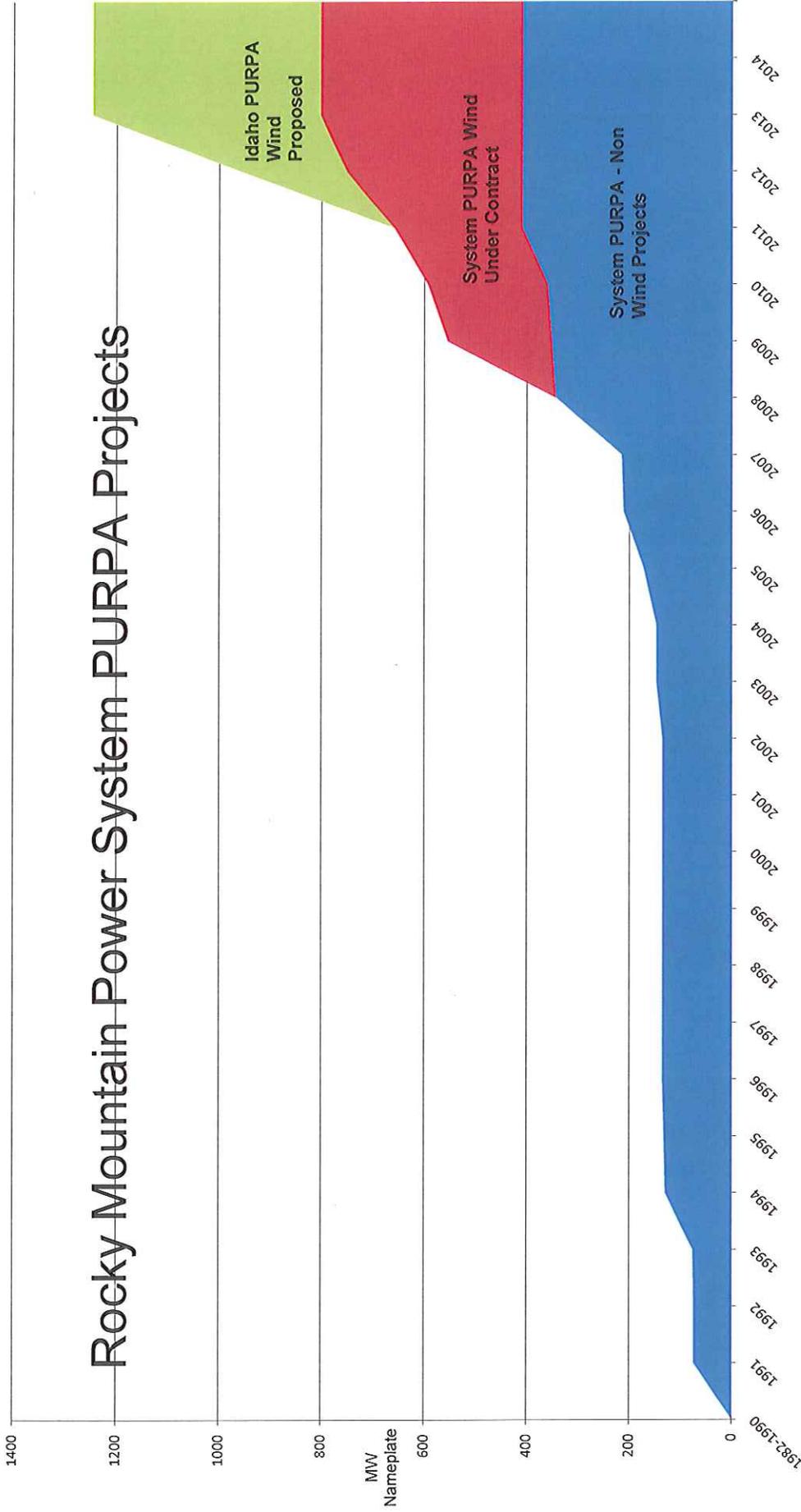
Of all renewable technologies, wind projects are currently breaking a large project into multiple QF projects to qualify for higher published avoided cost prices. Hydro and thermal projects can downsize to qualify for standard rates but have limited ability to break a large project into multiple projects.

IV – CONCLUSION

Rocky Mountain Power appreciates the opportunity to submit comments on Idaho's published avoided cost eligibility cap. Rocky Mountain Power supports a reduction in the eligibility for published avoided cost rates to 100 kW for all QF facilities as soon as it is possible. The purpose of this reduction will allow Rocky Mountain Power to continue to meet its PURPA obligations using the Commission approved IRP-methodology, QFs to continue to develop their projects, and customers to not be harmed by paying for QF generation at avoided cost prices specifically tailored to the individual QF project.

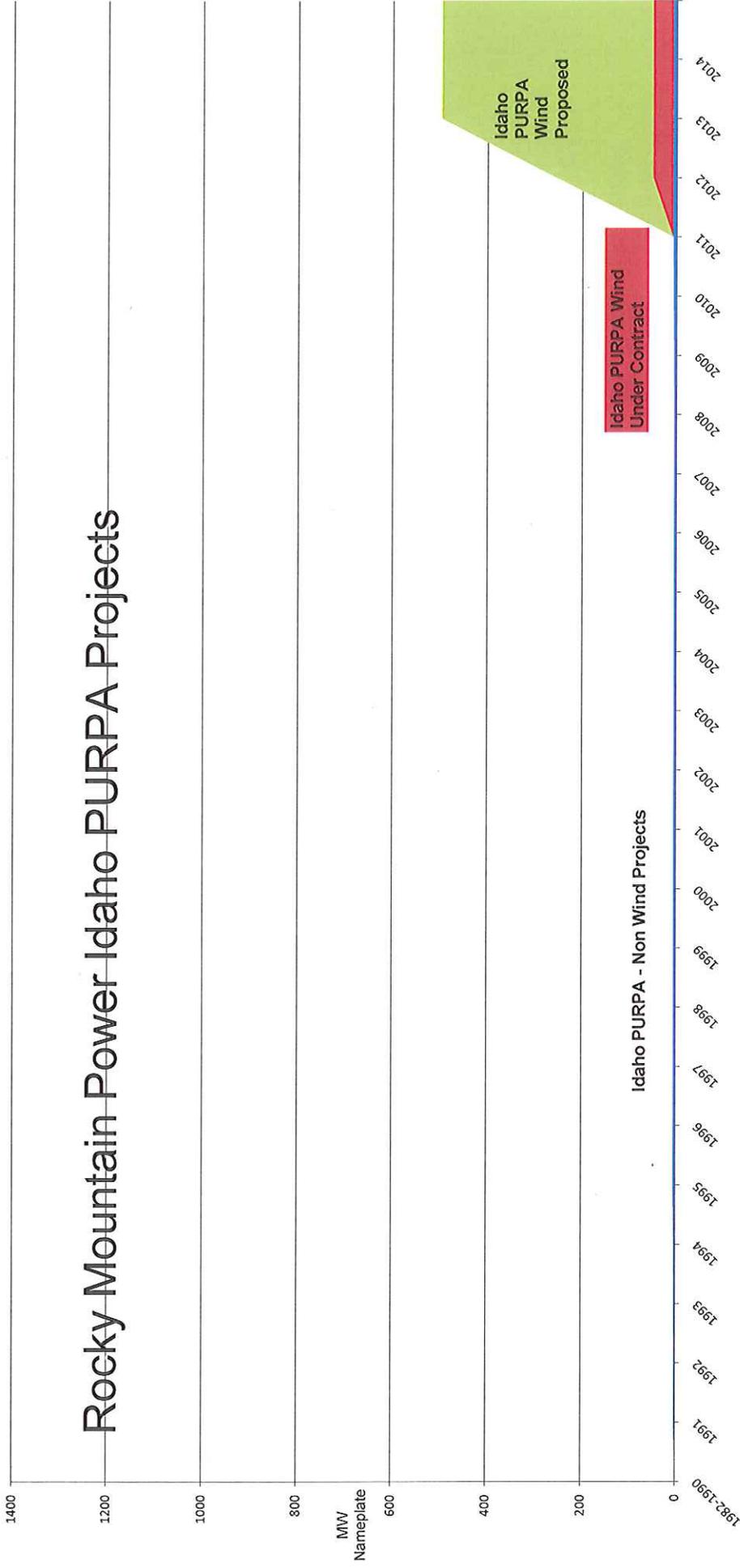
Exhibit RMP-1

Rocky Mountain Power System PURPA Projects



| | 1982-1990 | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | |
|---|-----------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|-----|
| System PURPA Non Wind Projects | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Annual Mw | 75 | 75 | 1 | 55 | 3 | 3 | 136 | 136 | 137 | 137 | 137 | 137 | 148 | 148 | 173 | 212 | 215 | 343 | 351 | 359 | 408 | 408 | 408 | 408 | 408 | 408 |
| Cumulative Mw | 75 | 75 | 76 | 131 | 133 | 136 | 136 | 137 | 137 | 137 | 137 | 137 | 148 | 148 | 173 | 212 | 215 | 343 | 351 | 359 | 408 | 408 | 408 | 408 | 408 | 408 |
| System PURPA Wind Under Contract | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Annual Mw | | | | | | | | | | | | | | | | | | | | 204 | 30 | 17 | 93 | 50 | | |
| Cumulative Mw | | | | | | | | | | | | | | | | | | | | 204 | 234 | 251 | 344 | 393 | 393 | 393 |
| Idaho PURPA Wind Proposed | | | | | | | | | | | | | | | | | | | | | | | | | | |
| Annual Mw | | | | | | | | | | | | | | | | | | | | | | | 204 | 241 | | |
| Cumulative Mw | | | | | | | | | | | | | | | | | | | | | | | 204 | 446 | 446 | 446 |

Rocky Mountain Power Idaho PURPA Projects



| | 1991 | 1992 | 1993 | 1994 | 1995 | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|--|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|------|
| Idaho PURPA Non Wind Projects | | | | | | | | | | | | | | | | | | | | | | | | |
| Annual Mw | | | | | | | | | | | | | | | | | | | | | | | | |
| Cumulative Mw | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 | 3.1 |
| Idaho PURPA Wind Under Contract | | | | | | | | | | | | | | | | | | | | | | | | |
| Annual Mw | | | | | | | | | | | | | | | | | | | | | | | | |
| Cumulative Mw | | | | | | | | | | | | | | | | | | | | | | | | |
| Idaho PURPA Wind Proposed | | | | | | | | | | | | | | | | | | | | | | | | |
| Annual Mw | | | | | | | | | | | | | | | | | | | | | | | | |
| Cumulative Mw | | | | | | | | | | | | | | | | | | | | | | | | |