



RICHARDSON & O'LEARY, PLLC
ATTORNEYS AT LAW

Peter Richardson

Tel: 208-938-7901 Fax: 208-938-7904

peter@richardsonandoleary.com

P.O. Box 7218 Boise, ID 83707 - 515 N. 27th St. Boise, ID 83702

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IDAHO PUBLIC
UTILITIES COMMISSION

October 25, 2012

Ms. Jean Jewell
Commission Secretary
Idaho Public Utilities Commission
P O Box 83720
Boise ID 83720-0074

RE: **Case No. GNR-E-11-03**

Dear Ms. Jewell:

Enclosed please find an original and (7) copies of the **COMMENTS OF CLEARWATER PAPER CORPORATION, EXERGY DEVELOPMENT GROUP OF IDAHO AND J.R. SILOT COMPANY ON PARTIAL SETTLEMENT STIPULATION** in the above case.

An extra copy is also enclosed to be stamped & returned to our office.

Sincerely,

Nina Curtis

Administrative Assistant

encl.

Peter J. Richardson
Gregory M. Adams
Richardson & O'Leary, PLLC
515 N. 27th Street
P.O. Box 7218
Boise, Idaho 83702
Telephone: (208) 938-7901
Fax: (208) 938-7904
peter@richardsonandoleary.com
greg@richardsonandoleary.com

Attorneys for Clearwater Paper Corporation
Exergy Development Group of Idaho, LLC
J. R. Simplot Company

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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE COMMISSION'S)	
REVIEW OF PURPA QF CONTRACT)	CASE NO. GNR-E-11-03
PROVISIONS INCLUDING THE)	
SURROGATE AVOIDED RESOURCE)	COMMENTS OF CLEARWATER
PLANNING (IRP) METHODOLOGIES FOR)	PAPER CORPORATION, EXERGY
CALCULATING PUBLISHED AVOIDED)	DEVELOPMENT GROUP OF IDAHO
COST RATES)	AND J. R. SIMPLOT COMPANY ON
)	PARTIAL SETTLEMENT
)	STIPULATION

Pursuant to Order No. 32665 of the Idaho Public Utilities Commission (the "Commission"), Clearwater Paper Corporation, Exergy Development Group of Idaho, LLC and the J. R. Simplot Company ("Intervenors") hereby provides the following Comments on that Partial Settlement Stipulation ("Stipulation") filed with the Commission on October 2, 2012.

The Intervenors did not sign the Stipulation because it simply codifies the status quo. The only true settlement issue that was resolved was the unremarkable and obvious concession that EXISTING projects will not be required to post a delay security deposit. The Intervenors

stand by the testimony of their expert witness, Dr. Reading, a copy of which is attached and incorporated herein by this reference.

DATED this 25th day of October, 2012.

A handwritten signature in black ink, appearing to read "P. J. Richardson", written over a horizontal line.

Peter J. Richardson

Gregory M. Adams

RICHARDSON & O'LEARY PLLC

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 25th day of October, 2012, a true and correct copy of the within and foregoing COMMENTS OF CLEARWATER PAPER CORPORATION, EXERGY DEVELOPMENT GROUP OF IDAHO AND J.R. SIMPLOT COMPANY ON PARTIAL SETTLEMENT STIPULATION was served as shown to:

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington
Boise, Idaho 83702
jean.jewell@puc.idaho.gov

☒ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Donald Howell
Kris Sasser
Idaho Public Utilities Commission
472 West Washington
Boise, Idaho 83702
donald.howell@puc.idaho.gov
krisine.sasser@puc.idaho.gov

☒ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Donovan E. Walker
Jason B. Williams
Idaho Power Company
PO Box 70
Boise, ID 83707-0070
dwalker@idahopower.com
jwilliams@idahopower.com

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Michael G. Andrea
Avista Corporation
P.O. Box 3727
Spokane, WA 99220
michael.andrea@avistacorp.com

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Electronic Copies Only:
Ken Kaufmann
Lovinger Kaufmann LLP
825 NE Multnomah Ste 925
Portland, OR 97232
Kaufmann@klaw.com

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Daniel Solander
PacifiCorp/dba Rocky Mountain Power
201 S Main St Ste 2300
Salt Lake City, UT 84111
daniel.solander@pacificorp.com

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Dean J. Miller
McDevitt & Miller, LLP
420 W. Bannock St.
Boise, ID 83702
joe@mcdevitt-miller.com

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Liz Woodruff
Ken Miller
Snake River Alliance
PO Box 1731
Boise, ID 83701
lwoodruff@snakeriveralliance.org
kmiller@snakeriveralliance.org

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

John R. Lowe
Consultant
Renewable Energy Coalition
12050 SW Tremont St
Portland, OR 97225
jravenesanmarcos@yahoo.com

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

R. Greg Ferney
Mimura Law Offices PLLC
Interconnect Solar Development, LLC
2176 E Franklin Rd Ste 120
Meridian, ID 83642
greg@mimuralaw.com

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Bill Piske, Manager
Interconnect Solar Development, LLC
1303 E. Carter
Boise, ID 83706
billpiske@cableone.net

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Ronald L. Williams
Williams Bradbury, PC
1015 W. Hays Street
Boise, ID 83702
ron@williamsbradbury.com

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Wade Thomas
General Counsel
Dynamis Energy, LLC
776 W. Riverside Dr., Ste 15
Eagle, ID 83616
wthomas@dynamisenergy.com

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Shelley M. Davis
Barker Rosholt & Simpson LLP
1010 W. Jefferson St (83702)
PO Box 2139
Boise, ID 83701
smd@idahowaters.com

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Brian Olmstead
General Manager
Twin Falls Canal Company
PO Box 326
Twin Falls, ID 83303
olmstead@tfcanal.com

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Robert A. Paul
Grand View Solar II
15690 Vista Circle
Desert Hot Springs, CA 92241
robertapaul08@gmail.com

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

James Carkulis
Exergy Development Group of Idaho, LLC
802 W. Bannock, Ste 1200
Boise, ID 83702
jcarkulis@exergydevelopment.com

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Arron F. Jepson
Blue Ribbon Energy, LLC
10660 South 540 East
Sandy, UT 84070
arronesq@aol.com

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

M.J. Humphries
Blue Ribbon Energy, LLC
4515 S. Ammon Rd.
Ammon, ID 83406
blueribbonenergy@gmail.com

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Ted Diehl
General Manager
North Side Canal Company
921 N. Lincoln St.
Jerome, ID 83338
nscanal@cableone.net

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Bill Brown
Adams County Board of Commissioners
PO Box 48
Council, IT 83612
bdbrown@frontiernet.net

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Ted S. Sorenson, PE
Birch Poer Company
5203 South 11th East
Idaho Falls, ID 83404
ted@tsorenson.net

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Glenn Ikemoto
Margaret Rueger
Idaho Windfarms, LLC
6762 Blair Avenue
Piedmont, CA 94611
glenni@envisionwind.com
margaret@envisionwind.com

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Megan Walseth Decker
Senior Staf Counsel
Renewable Northwest Project
917 SW Oak Street Ste 303
Portland, OR 97205
megan@rnp.org

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Benjamin J. Otto
Idaho Conservation League
710 N. Sixth Street (83702)
PO Box 844
Boise, ID 83701
botto@idahoconservation.org

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Robert D. Kahn
Executive Director
Northwest & Intermountain Power Producers
Coalition
1117 Minor Ave., Ste 300
Seattle, WA 98101
rkahn@nippc.org

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Don Sturtevant
Energy Director
J.R. Simplot Company
PO Box 27
Boise, ID 83707-0027
don.sturtevant@simplot.com

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Marv Lewallen
Clearwater Paper Corporation
601 W. Riverside Ave., Suite 1100
Spokane, WA 99201
marv.lewallen@clearwaterpaper.com

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Tauna Christensen
Energy Integrity Project
769 N. 1100 E.
Shelley, ID 83274
tauna@energyintegrityproject.org

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Deborah E. Nelson
Kelsey J. Nunez
Givens Pursley LLP
601 W. Bannock Street
Boise, ID 83702
den@givenspursley.com
kjn@givenspursley.com

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

J. Kahle Becker
Mountain Air Projects, LLC
1020 W. Main St., Suite 400
Boise, ID 83702
kahle@kahlebeckerlaw.com

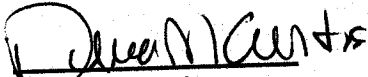
☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Michael J. Uda
Uda Law Firm, PC
7 West 6th Ave., Suite 4E
Helena, MT 59601
muda@mthelena.com

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail

Dr. Don Reading
6070 Hill Road
Boise, ID 83703
dreading@mindspring.com

☐ Hand Delivery
☐ U.S. Mail, postage pre-paid
☐ Facsimile
☒ Electronic Mail


Nina M. Curtis

ATTACHMENT 1
to

**COMMENTS OF
CLEARWATER PAPER
CORPORATION, EXERGY
DEVELOPMENT GROUP
OF IDAHO AND J.R.
SIMPLOT COMPANY**

1 allowed between approved IRP's with the exception of natural gas prices based on EIA's annual
2 updates or from another publicly available third party source on a predetermined date. The
3 single model run approach advocated by Idaho Power should be rejected, and the models should
4 instead be run twice – once with the QF at zero cost and once without the QF. QF projects
5 should be eligible for capacity payments for the full term of their contract with no deficit period
6 allowed, and a 20 year contract term should remain the standard which is discussed further
7 below.

8

9 **PART 2: OTHER QF ISSUES**

10 **I. LIQUIDATED DAMAGES AND DELAY SECURITY**

11 **Q. AVISTA COMPANY WITNESS CLINT KALICH STATES QF CONTRACTS**
12 **SHOULD CONTAIN A PROVISION WITH "MEANINGFUL" DELAY DEFAULT**
13 **LIQUIDATED DAMAGES IN HIS DIRECT TESTIMONY. DO YOU HAVE ANY**
14 **COMMENTS ON HIS DISCUSSION ON PAGES 31 THROUGH 33?**

15 **A.** Yes. In addition to my comments, I have also included discovery responses by Avista
16 addressing this issue as **Exhibit 503** to my testimony. "Meaningful" of course is another term
17 that is in the eyes of the beholder. Mr. Kalich recommends the Commission authorize utilities to
18 require QFs to post a security deposit equivalent to \$45 per kilowatt of nameplate capacity, and
19 allow the utility to terminate the contract and keep the \$45 per kilowatt deposit if the actual on

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1 line date is more than 180 days beyond that stated in the contract.³¹ The rationale for the 180
2 day termination condition is the Company fears a developer may simply hold off bringing the
3 project on line if prices are falling and waiting for prices to hopefully increase. Mr. Kalich
4 supports the security provision because it creates a meaningful deterrent to delay in achieving the
5 proposed on line date. There are two major issues with what Avista (or any other utility) is
6 proposing for liquidated damages for a QF.

7 **Q. WHAT IS THE FIRST ISSUE?**

8 **A.** The first issue is that no Idaho utility has provided the Commission with any analysis on
9 a utility's likely actual damages in the event that a PURPA project either did not come on line at
10 the stated contract date or failed to come on line completely. Instead, the \$45 per kilowatt delay
11 security amount appears to be an amount that the utilities have decided will provide adequate
12 deterrent to a breach. Avista simply conducted a survey of what other utilities have been able to
13 demand as a delay security in PPAs with independent power developers and states it has not
14 estimated the likely costs to Avista or any other utility should a QF default.³² This is out of line
15 with Commission orders, which I presume are based upon the Commission's understanding of
16 Idaho contract law.

17 With regard to a recent contract containing a delay liquidated damage security, the
18 Commission stated "the Commission is concerned that such provisions will have a potentially
19 deleterious effect upon future PURPA projects. Quite often, operators of qualified small power

³¹ Direct Testimony of Avista Witness Clint Kalich, GNR-E-11-03, pp. 32-33.

³² Avista Response to Clearwater Paper's Production Request Nos. 11, 13, and 14, contained in Exhibit 503.

1 production facilities do not have ready access to the necessary amount of security or capital

2 delineated in this Agreement.”³³ The Commission declared:

3 Therefore, the Commission finds that such provisions calling for delay security
4 should not be punitive in nature. Rather, the amount of delay security ultimately provided
5 in this case, as well as future energy sales agreements with other PURPA suppliers,
6 should constitute a fair and reasonable offset of a regulated utility’s estimated increase in
7 power supply costs attributable to the PURPA supplier’s failure to meet its contractually
8 scheduled operation date.³⁴

9
10 In other words, a liquidated damages provision should not operate merely as a one-way penalty
11 to deter one party from breaching the agreement. It should not be derived from a canvassing of
12 terms required by other utility purchasers because the traditional utility market is essentially a
13 monopsony market with only very limited number of purchasers in the region of any independent
14 power project. Standard terms in such a monopsony market place should not be assumed to be
15 fair. Instead, the liquidated damage provision should be an actual estimate of the likely damages
16 the non-breaching party (here, the utility) would incur. The intent should be to keep the utility
17 and its customer’s whole in the event of a default. Otherwise, the provision is simply a penalty
18 provision unilaterally imposed by the party with superior bargaining strength. Avista has
19 admitted that it has made no effort to approximate its likely actual damages in the event of a QF
20 delay default.³⁵

21 **Q. HOW WOULD YOU ESTIMATE A UTILITY’S ACTUAL DAMAGES IN THE**

³³ IPUC Order No. 30608, p. 3, Case No. IPC-E-08-09 (2008).

³⁴ *Id.*, p. 4.

³⁵ Avista Response to Clearwater Paper’s Production Request No. 13, contained in Exhibit 503.

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1 **EVENT OF A QF'S DELAY DEFAULT?**

2 A. One easy way to estimate a purchasing utility's actual damages in the event of a QF delay
3 default is to require the QF to pay the difference between the rate the utility would pay in the QF
4 contract and the actual cost for replacement power during the period the QF's delay default
5 forces the utility to secure replacement power. The replacement price would include the cost at
6 the relevant market hub plus the necessary transmission and administrative costs to secure that
7 replacement power. The period during which the utility would need to secure replacement
8 power should not last for the entire term of the power purchase agreement, which could be up to
9 twenty years, because the utility could obviously make alternative arrangements to meet its load
10 needs prior to the expiration of the 20-year contract term. The period during which the
11 breaching QF should be liable should be limited to a reasonable amount of time for the utility to
12 make alternative long-term arrangements to secure that amount of power. I understand that
13 Idaho QF power purchase agreements have in the past contained provisions tied to the
14 replacement price of electricity and capacity. The market price for replacement power in the
15 event of a QF default is quite low at the present time, and \$45 per kilowatt is an excessive
16 amount for a QF to automatically forfeit in the event of a delay. For example, at \$45 per
17 kilowatt, a 10 MW QF must provide \$450,000 to the utility at the time the contract is approved.
18 Under Mr. Kalich's proposal, the utility would receive \$450,000 for a 180 day delay in a QF's
19 achievement of its committed on line date. This appears far in excess of the utility's actual cost
20 for replacement power at the present time.

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1 It is only in the last few years that the utilities began unilaterally imposing the \$45 per
2 kilowatt delay security liquidated damages provision for QF contracts. Although I am aware of
3 complaint cases where QFs have alleged that a \$45 per kilowatt delay damage provision is
4 unfair, I am not aware of any QFs having fully litigating such a complaint at the Commission.³⁶
5 The Commission should not consider the absence of a fully litigated challenge to be
6 representative of a belief that these clauses are a fair estimation of the utility's actual damages, as
7 required by the Commission order cited above. Even for a QF with the financial resources to
8 litigate the legality of the clause, a delay caused by filing a complaint at the Commission could
9 compromise the viability of the entire project because the timing of tax credits, financing and
10 equipment supplies are critical in development of a generation project.

11 Mr. Kalich even recommends requiring the \$45 per kilowatt security amount be provided
12 by the QF simply to exercise the QF's right to create a legally enforceable obligation, i.e. a
13 binding contract that would lock in the fixed avoided cost rates. Many QFs cannot secure
14 financing and access to such large amounts of money until after the PPA is signed and approved
15 by the Commission. Thus, Mr. Kalich's proposal would create a timing problem for many QFs,
16 and would obviously be a substantial hurdle for all but the most well-funded QFs.

17 For all of these reasons, if such a requirement is to be authorized by the Commission, it
18 should not be based on a flawed method of calculating the utility's actual damages, so as to
19 unnecessarily deter otherwise viable QF projects. The Commission should take the opportunity

³⁶ See IPUC Case Nos. IPC-E-10-29 and -30; PAC-E-10-05.

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1 in this case to require the utilities to tie the delay default provision to a utility's actual damages.,

2 **Q. WHAT IS THE SECOND ISSUE YOU WOULD LIKE TO MENTION WITH**
3 **DELAY SECURITY AND LIQUIDATED DAMAGES PROVISIONS?**

4 **A.** Mr. Kalich notes in his testimony that the Company wants to "ensure a level playing
5 field" between the QF and the utility.³⁷ A true level playing field would be where the utility-
6 owned plants must be held to the same standard and issue rate payer refunds when their own
7 plants experience failures or delays. A good example is Avista's Reardan wind project that was
8 in the utility's Preferred Resource Strategy in its 2009 IRP. It was slated to come on line in 2010
9 or 2011, but now is not scheduled until 2014 or beyond. This is not to say that Avista
10 necessarily acted irrationally to replace this project with the Palouse wind RFP. I simply intend
11 to point out that utilities regularly incur expenditures for generation plants that either never come
12 on line or are delayed. If there are real costs to a utility and its customers that warrant a delay
13 default provision in a QF PPA, then there should likewise be compensation to the utility's
14 customers for a similar delay occurring at a utility-owned generation project. Avista's proposal
15 provides for unfair treatment to QFs and deprives the utilities' customers of a comparable market
16 check to the utilities' proposals to build their own generation resources.

17 **Q. IS THERE ANYTHING ELSE THAT WOULD LEVEL THE PLAYING FIELD?**

18 **A.** Yes, Mr. Kalich proposes only a provision that would address a default by the QF. But
19 there is the possibility that the QF could be harmed by a utility under certain circumstances, and

³⁷ Direct Testimony of Avista Witness Clint Kalich, GNR-E-11-03, p. 33.

1 therefore QF contracts should provide for compensation to the QF in the event of a utility
2 default. For example, a delay in achieving an on line date could occur solely because the utility
3 failed to complete interconnection construction as scheduled. The QF could be damaged by such
4 a delay because it could delay the project's schedule and the time by which the project would
5 start generating revenue. Such a delay by the utility in completing interconnection should not
6 result in the QF being in default on its power purchase agreement. Another potential cause of
7 damage to a QF is if the utility experiences a disruption on its system that requires curtailment of
8 the QF for a lengthy period of time. The QF should be compensated for the lost revenue and
9 other damages it might incur by the unscheduled outage. Further, as I will discuss below, Idaho
10 Power's proposed Schedule 74 curtailment provision would allow Idaho Power to curtail QFs
11 under certain circumstances. But Idaho Power's provision provides no express remedy to QFs if
12 Idaho Power implements the curtailment at an inappropriate time or in a manner that harms the
13 QF.

14 If Idaho QF PPAs will include damage provisions, they should address the possible
15 damages to the QFs also, not just the potential damages to the utilities.

16 **II. AVISTA'S PROPOSAL THAT QFs MUST ACHIEVE ON LINE STATUS**
17 **WITHIN 2 YEARS TO OBTAIN FIXED RATES.**

18 **Q. DO YOU HAVE ANY COMMENTS ON AVISTA COMPANY WITNESS**
19 **KALICH'S RECOMMENDATION THAT QF CONTRACTS NOT BE SIGNED**
20 **EARLIER THAN FIVE YEARS BEFORE COMMERCIAL OPERATION AND THAT**

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