

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

<b>IN THE MATTER OF THE APPLICATION OF</b>	)	
<b>IDAHO POWER COMPANY FOR A</b>	)	<b>CASE NO. IPC-E-03-12</b>
<b>CERTIFICATE OF PUBLIC CONVENIENCE</b>	)	
<b>AND NECESSITY FOR THE RATEBASING OF</b>	)	
<b>THE BENNETT MOUNTAIN POWER PLANT.</b>	)	<b>ORDER NO. 29410</b>
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On September 26, 2003, Idaho Power Company filed an Application for a Certificate of Public Convenience and Necessity to construct a new generating plant in Mountain Home, Idaho pursuant to *Idaho Code* § 61-526. This statute prohibits any electrical corporation from constructing a generating plant “without having first obtained from the commission a certificate that the present or future public convenience and necessity require or will require such construction.” The Company also sought expedited approval and authority to rate base the cost of the plant. On October 22, 2003, the Commission convened a prehearing conference. Intervention was granted to the Industrial Customers of Idaho Power and to the Idaho Irrigation Pumpers Association.

In Order No. 29370 issued October 30, 2003, the Commission issued a Notice of Modified Procedure soliciting public comment on the Company’s Application. In response to this Notice, the Commission Staff, the Advocates for the West, and one customer submitted timely comments. Idaho Power and Mountain View Power each submitted reply comments. After reviewing the Application, the comments and the replies, we issue this Order granting the requested Certificate as set out in greater detail below.

**THE APPLICATION**

***A. Future Necessity***

Idaho Power maintains that its decision to construct a new generating plant results from its 2002 Integrated Resource Plan (IRP). In general, the IRP process evaluates the Company’s future loads and resources and the various options for meeting projected loads. The combination of options for meeting load include: (1) purchase of power from the regional wholesale market; (2) acquire additional generating resources; (3) implement pricing options to dampen peak loads; and/or (4) implement Demand Side Management (DSM) or conservation

programs. The Company's 2002 IRP included an assumption that Idaho Power would purchase up to 250 MW of capacity from the proposed Garnet plant to meet future load. When the Garnet project was abandoned, Idaho Power supplemented its 2002 IRP with the "Garnet Report." This October 2002 Report indicated that although the Company had already anticipated issuing a request for proposal (RFP) for new generation in 2003, it was considering increasing the requested RFP capacity from 100 MW to approximately 170 MW.

In July 2003, Idaho Power reported that it was able to acquire power to replace a portion of the lost Garnet capacity. In Order No. 29286, the Commission approved a Power Purchase Agreement between Idaho Power and PPL Montana. The PPL Montana Agreement will provide 83 MW of firm power during heavy load hours, 6 days a week, 16 hours per day in the months of June, July, and August beginning in June 2004. Adjusted for losses, the 83 MW purchase replaces approximately 80 MW of the Garnet project. Application at 3-4.

In preparation for its 2004 IRP, Idaho Power has prepared new load forecasts and analyzed the balance between loads and generating resources. Under the Company's 70<sup>th</sup> percentile planning criteria,<sup>1</sup> the loss of the FMC (Astaris) load, and the addition of new generation from the Danskin plant, the Company's load-resource balance still indicated a significant need for capacity and associated energy during peak hours in the summer and winter.

#### ***B. The 2003 RFP Process***

In February 2003, Idaho Power issued a RFP seeking bids to supply the Company with power in a range between 100-200 MW. In response to the RFP, the Company received 11 bids. With one exception, all of the bids involve gas-fired, combustion turbine technology. The exception was a five-unit, 10 MW biomass-fired QF project to be located in the Treasure Valley. The biomass bidder was encouraged to develop its multi-unit project through the normal PURPA process. Two other bids were rejected because they were located outside Idaho Power's control area.

In evaluating the bids, Idaho Power used a combination of both price and non-price weighting criteria in its analysis. A 5-year, 10-year and 30-year present worth cost was computed for each bid. Bids were evaluated assuming a 20% capacity factor reflective of peak hour production in the five months of June, July, August, November and December only. Non-

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<sup>1</sup> The 70% water condition means that Idaho Power plans for generation based on stream flows that occur in 7 out of 10 years on average. Stream flow conditions are expected to be worse than the planning criteria 30% of the time.

price factors included: on-line start date of June 1, 2005; dispatchability; performance guarantee; experience of the bidder; delivery assurances; maintenance scheduling; etc. For bids that used natural gas as fuel, gas prices were assumed to be \$4.52 per MMBtu in 2005 and were escalated throughout the life of the project based on price forecasts available to the Company. *Id.* at 5. The same gas price was utilized for all natural gas-fired project proposals. Eventually the bids were narrowed to two finalists: the Mountain View Power project and the Company's self-build project. The Company's RFP evaluation team recommended and the Company's Board of Directors selected Mountain View Power as the successful bidder to build a new generating plant.

### ***C. The Proposed Plant***

The proposed Bennett Mountain plant will be a nominal 162 MW natural gas-fired, simple-cycle power plant to be located on about 10 acres within the Mountain View Industrial Park in Mountain Home. The Industrial Park is located on the north side of I-84 and west of State Highway 20. The plant will utilize a single Siemens Westinghouse Model 501F combustion turbine. The plant site is also large enough to accommodate an additional future generating unit. The Bennett Mountain plant could be modified to operate as a combined-cycle plant at some point in the future. The Bennett Mountain site is approximately four miles southeast of Idaho Power's Danskin generating plant. Application at 3.

Mountain View has contracted with Siemens Westinghouse to furnish all of the labor, equipment and materials, and to perform all of the engineering and construction of the proposed project. Upon completion of construction and the necessary performance tests, title to the project will transfer from Mountain View to Idaho Power. The plant is currently scheduled to be available to meet peak loads in the summer of 2005. If approved, the plant will be operated to meet peak-hour loads in the months of June, July, August, November and December.

Williams Northwest Pipeline will supply the natural gas necessary to fuel the plant. The pipeline currently passes less than one mile from the plant. For Bennett Mountain to access the pipeline, an interconnecting pipeline of approximately 3,400 feet will need to be constructed. Mountain View's bid included an 8-inch diameter pipeline. Idaho Power and Mountain View are currently investigating increasing the pipeline size from 8-inch to 12 or 16-inch in diameter. A 16-inch diameter line would be sufficient to fuel two 162 MW units and also reduce the pressure drop between Northwest Pipeline and the Bennett Mountain plant.

The City of Mountain Home will supply water service to the plant. The Company noted that the City has substantial water supply capacity and priority water rights to serve the plant. The plant's wastewater will be discharged to the City's sewer system. The City has already constructed a sewer line to serve the Industrial Park. Sewer discharges are expected to range from 10-23 gallons per minute.

Idaho Power's existing 230 kV transmission line is located approximately four miles north of the Bennett Mountain site. If the plant is approved, a 230 kV line will need to be constructed between the plant's switchyard and Idaho Power's existing 230 kV transmission line. Interconnection studies are currently underway to determine the best way to connect the Bennett Mountain plant with the Company's transmission system. Depending upon the outcome of the studies, the Company may decide to upgrade its transmission system between Mountain Home and Boise. Idaho Power estimates the interconnection and/or the transmission upgrade will cost between \$5.5 - \$11.6 million. The cost of connecting the plant to the transmission system and any transmission upgrade are not included in either the bid or the Company's Commitment Estimate.

#### ***D. Estimated Capital Costs***

Idaho Power contracted with Mountain View for construction of the Bennett Mountain plant at a cost of \$44.6 million. Based upon this contract price, Idaho Power has prepared a "Commitment Estimate" of the project's total capital costs. The Commitment Estimate includes the firm bid price of the project (\$44.6 million), plus certain additional costs such as: sales taxes; allowance for funds used during construction of the plant (AFUDC); the cost of Idaho Power oversight of the project; the cost of the capitalized start-up fuel; construction change orders; and other unforeseen events. Idaho Power's Commitment Estimate for the project is \$54 million. Application at 4.

The Commitment Estimate does not include: (1) the cost of constructing and/or upgrading the transmission facilities to interconnect the project with Idaho Power's existing transmission system; (2) legally required equipment changes to the plant; and (3) material changes in assumed escalation forecast rates. Idaho Power seeks initial approval to include the capital costs of Bennett Mountain in its Idaho rate base for only those costs actually incurred up to the Commitment Estimate cap of \$54.0 million. Idaho Power will not seek recovery of capital costs exceeding the Commitment Estimate.

## ISSUES AND FINDINGS

The Commission received comments from a Boise customer, the Advocates for the West, and the Staff. Idaho Power and Mountain View filed individual reply comments that addressed the Advocates and Staff comments. The one public commenter questioned the wisdom of building the natural gas plant when natural gas prices may go up. He also alleged that the Company has shown poor management foresight in the past. He suggested that ratepayers should not be required to pay for the plant until it is constructed and operational.

### *A. Stay and Consolidation*

In its Application, Idaho Power requested that the Commission expeditiously process this case. More specifically, the Company requested that the Commission issue its Order in this matter on or before December 31, 2003. Application at 6. The Company's Agreement with Mountain View contains a construction schedule that may require modification if the Commission has not made its decision prior to December 31. In addition, the Company stated that the prices contained in the Agreement are time sensitive and the Commission's failure to issue a timely Order may "potentially [affect] the pricing for the Project." *Id.*

The Advocates for the West questioned the reasonableness of processing this case on an expedited schedule. If the project is approved, they claimed it will significantly increase rate base separate and apart from the Company's current rate case (Case No. IPC-E-03-13). They also argued that this case be stayed until Idaho Power files its peak-load management study and implements DSM/peak-load programs. Comments at 3. Consequently, the Advocates recommended that the two cases be consolidated and this case stayed. "A five month delay under these unique circumstances is entirely reasonable." *Id.* at 1.

Idaho Power opposed the Advocates' request for a stay and consolidation for two reasons. First, the Company asserted that the equipment prices and bid price from Seimens and Mountain View are only valid until December 31, 2003. Idaho Power noted that the Commission Staff observed that a favorable turbine price was obtained because of the surplus of generators in the market. Second, combining or consolidating this case with the general rate case would add a new and major issue to the rate case. Introduction of this significant issue at this stage of the rate case would be unreasonable. Idaho Power Reply at 2.

**Commission Findings:** We deny the request that this case be stayed and consolidated with the Company's general rate case for several reasons. First, the primary focus

of this proceeding is to examine the questions of whether the future public convenience and necessity require additional resources, and whether the Bennett Mountain project is a reasonable means of meeting this need. In contrast, the rate case is a much broader proceeding examining expenses, rate base, return on assets, and rate design. This case is at issue and the rate case is well underway; it would be unreasonable to consolidate them. Second, while the outcome of this case may result in a significant addition to the Company's rate base, it will not occur until well after the rate case is concluded. We also note the Advocates did not raise this issue during the rate case's prehearing conference on November 13, 2003.<sup>2</sup> Third, we find the stay/consolidation would unreasonably delay the decision in this case, and such a delay may jeopardize the bid price.

Finally, we decline to wait for the Company's future DSM and conservation plans. While we expect the Company's next Resource Plan to address the deficiencies we found in the 2002 IRP, the 2004 IRP is not due until later this year. Moreover, Idaho Power's annual Conservation Plan and its DSM Plan will not be filed for some months. In addition, we question whether the information in these plans or the 2004 IRP could be timely converted to load shedding/shifting programs to meet peak loads in 2005. Accordingly, we deny this request.

### ***B. The Public Necessity***

1. Idaho Power. In its Application, Idaho Power relied upon its 2002 IRP to substantiate the need for dispatchable energy and capacity beginning in the summer of 2005. As noted in Company witness Said's prefile testimony, Idaho Power anticipated purchasing up to 250 MW of seasonal capacity and energy beginning in June 2005 from the Garnet project. With the abandonment of the Garnet project, the projected peak-load deficit remained.

The 2002 IRP also changed the water planning condition from a "median" water condition to a 70<sup>th</sup> percentile water condition. Adoption of the 70<sup>th</sup> percentile water condition increased Idaho Power's annual generation requirement by 125 MW.

2. The Advocates. They questioned the Company's reliance on the 2002 IRP to support a need for power. They asserted the 2002 IRP does not provide any basis of reasonableness for approving the construction of the Bennett Mountain plant. They maintained the 2002 IRP had many shortcomings. In particular, they noted that the Commission directed the Company to make several significant improvements in its next (2004) IRP.

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<sup>2</sup> The Advocates for the West is a party in the rate case.

3. Staff. In its comments, the Staff indicated that it believed adoption of the 70<sup>th</sup> percentile water condition is appropriate. Staff Comments at 4. It asserted that Idaho Power's adoption of a more conservative planning criteria was prudent. Using this new criteria, Staff noted the Company had prepared new load forecasts analyzing future loads and resources. The Staff asserted these forecasts show that Idaho Power will be deficient during both the summer peak (June-July) and the winter peak (November-December) in 2004 through 2011. Staff Comments at 5, Atch 1-3. Even with the additions of the Danskin and Bennett Mountain plants and the loss of the Astaris load, "the Company expects to have significant summer and winter [resource] deficits." *Id.*

Compounding the problem of the load deficiencies is the issue of transmission constraints. The Staff observed that Idaho Power will experience summer transmission constraints beginning in 2007 under normal water and load conditions. Staff Attch. 4-6. Transmission constraints were in part the reason why Idaho Power eliminated two of the 11 RFP bids.

**Commission Findings:** The Advocates argued that the Company's 2002 IRP does not give any reasonable basis to support construction of the Bennett Mountain plant. However, upon closer scrutiny, their argument is not so much with the forecast of peak-resource deficiencies, but with Idaho Power's solution for addressing the peak loads beginning in 2005. They fault the Company for relying on generating resources – rather than non-generating alternatives – to meet these deficiencies.

Based upon this record, we find that the Company has adequately demonstrated that there is a need for future power to meet the projected peak loads beginning in 2005. We further find that no commenter has disputed that the Company will experience peak load deficiency in the future. Consequently, we find that Idaho Power will experience peak-load deficiencies in the summer and winter beginning in 2005.

### ***C. Meeting the Public Need***

1. Idaho Power. To address the peak-load deficiencies, Idaho Power proposed to acquire additional generating resources through the 2003 RFP process. The Company relied upon its 2002 IRP which included an assumption that the Company would purchase up to 250 MW of capacity from the [now abandoned] Garnet plant. This capacity was to be acquired in the summer of 2005. In response to its February 2003 RFP seeking bids to supply between 85 and

200 MW of capacity and energy, the Company ultimately selected the Bennett Mountain proposal as the most cost effective.

2. Staff. The Staff determined that the Bennett Mountain plant was a reasonable means of meeting peak loads. It found that the criteria used by Idaho Power to evaluate bids and the selection of Mountain View was reasonable and fair to all bidders. The Staff concluded the Mountain View proposal is superior to the other proposals received by Idaho Power through the RFP process. Consequently, Staff recommended that the Commission issue Idaho Power a Certificate of Public Convenience and Necessity to construct the Bennett Mountain plant.

Staff also concluded that the Bennett Mountain plant was cost effective. Adding the base price of the plant (\$44.6 million) and the \$11.6 million upper-end interconnection transmission estimate, the Staff calculated that the cost of energy from Bennett Mountain will be \$78 per MWh over a 10-year period based on a 20% capacity factor. Staff Comments at 18-19. However, Staff believed that the most accurate indication of the long-term cost of power from Bennett Mountain is to use the 30-year period with capacity factors ranging from 20% to 80%. Using the 30-year period and a 20% capacity factor, Staff estimated the energy cost for Bennett Mountain is \$44.61 per MWh, with all other factors being equal.

Staff projected that the 20% capacity factor would increase over time as the plant operates for longer periods. If the capacity factor does increase over time, the Company's price per MWh will decrease. For example, the Staff calculated that over a 30-year period at 80% capacity, the price per MWh would be approximately \$30 per MWh, all other factors remaining the same. *Id.* at 19. Although the Staff recognizes it is difficult to make comparisons between Bennett Mountain and other market alternatives, Staff did note that Bennett Mountain's 10-year, 20% capacity factor price of \$78 per MWh is very similar to the 10-year cost anticipated for the Garnet contract. However, the Bennett project is entirely dispatchable while the Garnet contract was not. *Id.* at 20, 22.

Staff also examined other alternatives to Bennett Mountain. Because Bennett Mountain is primarily directed to meet peak-hour load, the Staff recommended that the Company implement all cost-effective transmission upgrades and "load management programs prior to, or in addition to, acquiring power from a new plant." *Id.* at 27. The Staff noted the Company's peak-load reduction study would not be available until 2004. Nevertheless, Staff observed that any cost-effective load management program, which reduced peak loads, would mitigate the

continuing need for additional resources similar to Bennett Mountain. *Id.* at 30. In addition to the previously authorized air conditioning pilot program, Staff noted other load management programs that warrant the Company's serious attention include water heating, energy exchanging, and load shifting programs for irrigation customers.

Staff was critical of the Company's failure to embrace load shifting and alternative rate designs to reduce peak-load demands. Staff characterized the Company's evaluation of alternatives as only looking "at the immediate costs and revenues associated with the programs, and failing to consider long-term impacts." *Id.* at 32-33. In Staff's view, a program that reduces critical peak hourly demand "has great value, especially if peak hourly demand is what dictates Idaho Power's need for new generation. The value of reducing critical peak hour demand equals the value of eliminating or deferring the need for new generation." *Id.* at 33.

3. The Advocates. The Advocates did not argue that Bennett Mountain is not a cost effective supply resource. Instead, they generally asserted Idaho Power has not adequately explored other options to the proposed power plant. In particular, they recommended that peak-load management programs should have been seriously examined. Comments at 2. Although the Company has reportedly been studying peak-load management options for over a year, the study is not complete. The Advocates suggested that all cost-effective, peak-load management or load reduction resources should be fully explored before the Commission considers authorizing the Bennett Mountain proposal. Consequently, the Advocates requested that the Commission stay this case pending release of Idaho Power's peak-load management study and implementation of cost-effective programs for peak management. *Id.*

The Advocates also fault the Company for not requesting bids for other kinds of generation resources, including wind power. The Advocates maintained that wind power costs "about 03 cents/kWh (or about 4 to 4.5 cents without the federal production tax credit)" and is comparable to Bennett Mountain's first year fuel costs of 5.7 cents/kWh (based upon \$4.52/MMBtu). The Advocates asserted that wind is a "cost-competitive resource alongside natural gas even for targeting peak load needs." *Id.* at 3.

4. Idaho Power Reply. In response to the Advocates' criticism of the RFP, Idaho Power stated that the RFP was open to all generating technologies, including wind. Idaho Power also asserted that its 2004 IRP planning process will address the benefits of DSM and renewables, peak-load management programs, and gas price volatility. Idaho Power suggested

that the 2004 IRP process is the appropriate forum for addressing these complex long-term planning issues. *Id.*

**Commission Findings:** We find that the Bennett Mountain proposal is a reasonable response to meet the near-term needs of the Company and its customers. Bennett Mountain is the most cost-effective proposal in the RFP process and was the winning project. Unlike power purchase agreements or purchases from the spot market, Bennett Mountain will be fully dispatchable (i.e., available for use) by Idaho Power at any time. Assuming a 20% capacity factor over the 30-year expected life of the plant, Staff calculated an energy cost of approximately \$44.60 per MWh, with all other factors being equal. We further find the base price of \$44.6 million for the 162 MW Bennett Mountain project compares favorably to the \$49 million cost of the 90 MW Danskin plant completed in September 2001. Consequently, we grant Idaho Power a Certificate of Public Convenience and Necessity to construct the Bennett Mountain plant.

Although we grant the Certificate, we concur with the thrust of the Advocates and Staff comments regarding Idaho Power's obligation to aggressively consider alternatives to supply-side resources. We have not retreated from our belief that DSM and peak-load management programs offer viable alternatives to the incremental construction of peaking generation units. According to the Staff, the Company's most recent load-resource balance analysis demonstrate a significant need for capacity and associated energy (or load shedding/shifting alternatives) during peak hours in the summer and winter. Programs or procedures that reduce critical peak hourly demand have great value to both ratepayers and the Company. Idaho Power must vigorously pursue all available cost-effective DSM or other conservation programs. We anticipate that the Company's 2004 IRP will seriously evaluate available DSM and conservation alternatives and their implementation prior to seeking new generation to meet peak loads.

#### ***D. Ratebasing the Capital Costs***

1. **Idaho Power.** Consistent with prior Commission Orders, Idaho Power provided a "Commitment Estimate" for the capital costs of the Bennett Mountain plant. The Commitment Estimate is a good faith estimate of the project's total capital costs plus certain additional costs that the Company will incur but cannot quantify with precision at this time. Idaho Power's negotiated Agreement with Mountain View establishes a firm bid base price in the amount of

\$44.6 million and the Commitment Estimate for the project is \$54 million. Application at 7. The difference between the base price and the Commitment Estimate includes costs such as: sales taxes; AFUDC on progress payments made to Mountain View during construction; the cost of Idaho Power oversight; the cost of capitalized start-up fuel; construction change orders; and other unforeseen events.

The Commitment Estimate also does not include legally required equipment changes (e.g., requirements to comply with new air quality laws) and for escalations in assumed forecasts such as inflation. Idaho Power stated it will absorb the extra cost of the project that exceeds the Commitment Estimate. The Company will include in its Idaho rate base only the amount of actual costs incurred up to the Commitment Estimate.

The Commitment Estimate does not include the costs of connecting the plant to the Company's transmission system. Idaho Power is currently evaluating how the plant ought to be connected with the Company's existing transmission system. Depending on the outcome of these studies, one of two alternatives will be implemented to upgrade the transmission line between Mountain Home and Boise. The more costly upgrade plan will cost approximately \$11.6 million while the least costly will be about \$5.5 million.

2. Staff. Staff stated that the Commitment Estimate for the project is reasonable. While the Staff believed that the Commitment Estimate is reasonable, the Staff recommended that the authorized capital costs for the Bennett Mountain project be limited at this time to \$44.6 million. Staff suggested that the costs above the \$44.6 million contract—up to the Commitment Estimate of \$54 million—should be subject to scrutiny in a future proceeding once the plant becomes operational. The Staff agreed with the Company that the actual cost of the contract above Mountain View's bid cannot be quantified with precision at this time. Application at 4; Staff Comments at 18. Consequently, Staff recommended that these expected costs (up to a maximum of \$9.4 million) be subject to audit by the Commission Staff. Staff also recommended that Idaho Power should be required to provide the Commission with periodic percentage completion and cost expenditure reports, and that rate base consideration of the costs above the base price should be withheld until after the project is constructed and the audit completed.

**Commission Findings:** We find that in the ordinary course of events, Idaho Power may anticipate ratebasing \$44.6 million, the amount of the Mountain View bid. The reasonable and prudent actual costs incurred above that figure cannot be quantified with precision at this

time and will be reviewed in a subsequent proceeding. We specifically reserve our approval of costs in excess of the base price until after the project is constructed and an audit of such costs is completed. We also recognize that the costs of transmission interconnection and/or upgrade are not included in the Commitment Estimate.

#### *E. Fuel Costs*

1. Idaho Power. As part of its Application, Idaho Power requested that fuel costs for the project be included for recovery in the Company's PCA mechanism.

2. The Advocates. They recommended the Commission consider implementing measures to mitigate the potential risks to customers from predicted increases in natural gas prices. Although construction costs of the Bennett Mountain plant may be low in comparison to other generating resources, its operating costs will be tied directly to the future price of natural gas. They note that a recent Lawrence-Berkley National Laboratory report confirmed that the cost of natural gas "can account for *more than half* the levelized cost of energy from a new combined cycle gas turbine, and *more than 90%* of its operating costs. *Id.* at 3 (emphasis original). In addition, the National Petroleum Council predicts future increases in natural gas prices absent significant new drilling or efficiency improvements. Even with significant changes in energy policy, the Council indicates that prices may escalate close to \$6 per MMBtu by 2005 and continue to range upwards toward \$7 per MMBtu. The Advocates suggested that these price projections might be conservative given "that the gas industry itself drafted the report." *Id.* at 4.

To mitigate these operating costs attributable to natural gas, the Advocates suggested that the Commission consider lowering the ratio of Bennett Mountain's fuel costs recoverable through the Power Cost Adjustment (PCA) "below the typical 90%. The ratio of fuel costs recoverable through the PCA could be on a sliding scale that would place less responsibility for fuel costs on ratepayers as gas prices increase above a certain price per MMBtu." *Id.* at 4.

If the Commission does not mitigate fuel price risks through the PCA mechanism, then the Advocates recommended that the actual construction cost of the plant should include costs of a "full hedge" to stabilize future fuel costs. Such hedging could take a variety of forms: investment in renewable energy resources and efficiency measures; gas storage system and long-term gas supply contract; or financial instruments. Some of these hedging measures would also allow Idaho Power and its customers to benefit from gas price decreases as well. Although the actual cost of hedging natural gas to create a fixed fuel cost is unknown, the Advocates proposed

that one solution would be for Idaho Power to internalize any cost of hedging and offer a “long-term fixed-price electricity contract, much like renewable energy typically provides.” *Id.* at 5.

3. Staff. Staff recommended recovery of fuel costs in the annual PCA. The Staff indicated that Idaho Power has not yet negotiated or entered into any agreements for the purchase of natural gas for the Bennett Mountain plant. However, in general, the approach Idaho Power intends to pursue includes: (1) resourcing fuel from several geographic areas; (2) staggering the terms of gas supply agreements if multiple agreements are executed; (3) incorporating a mixture of forward and spot purchases; and (4) utilizing a combination of firm and non-firm or released transport capacity. Idaho Power has already purchased firm fuel transport rights that can be used for both Danskin and Bennett Mountain projects. Significant transport rights to serve the Bennett Mountain plant are available without an expansion of the Williams pipeline.

Staff also recognized that Idaho Power claims it employs a hedging strategy when purchasing natural gas for the Danskin plant. The Company intends to develop its fuel procurement strategy for both natural gas and transport capacity as well as expand its hedging guidelines and risk management strategies to cover both Danskin and Bennett Mountain. Staff Comments at 14. Management of the Company’s fuel supply will either be done by its own personnel or in conjunction with a third party. Staff recommended that hedging strategies be discussed at the next Risk Management Customer Advisory Group meeting.

**Commission Findings:** While we recognize that gas prices significantly contribute to the levelized cost of energy from a new natural gas generating plant, we find it is reasonable to allow the Company to recover its fuel cost through the PCA mechanism. In Order No. 28799 we allowed recovery of fuel costs for the Danskin plant in the Company’s annual PCA rates. We find that similar treatment here is reasonable. Although we decline to lower the fuel recovery below 90%, we expect the Company to utilize hedging guidelines and risk management strategy to mitigate the volatility of fuel prices for both Bennett Mountain and Danskin. We shall review the Company’s hedging and risk management strategy when it seeks recovery of fuel costs in the PCA proceeding.

#### ***F. Miscellaneous Issues***

1. AFUDC. Staff observed that recovery of AFUDC is typically allowed only in instances where the utility itself is constructing new generating plant. In this case, however,

Staff agreed that recovery of AFUDC should be allowed based upon the project price reduction contained in Mountain View's bid. Staff Comments at 25. The Staff recommended that the Company be allowed to recover up to \$2.5 million in AFUDC. For AFUDC in excess of the \$2.5 million "soft cap," Idaho Power "should be required to justify any additional amounts with a cost/benefit analysis prior to inclusion in rates." *Id.*

Although Idaho Power agreed with the Staff's recommendation to include AFUDC in the capital costs, the Company in its Reply questioned the rationale for limiting recovery to \$2.5 million absent a cost/benefit analysis. Idaho Power Reply at 3. Instead of a soft cap of \$2.5 million, the Company requested that if it is authorized to build the Bennett Mountain project, it be allowed "to include AFUDC attributable to progress payments based on the Company's actual cost of money at the time the amounts are booked." *Id.*

**Commission Findings:** Although AFUDC is typically allowed only in instances where the utility is building new generating facilities, we find that recovery of AFUDC should be allowed in this instance where prudent. We also find Staff's recommendation that the Company should be allowed to recover up to \$2.5 million in AFUDC is reasonable. Amounts above this "soft cap" will be subject to a prudence showing by the Company before rate recovery.

2. **Tax Increment Financing.** In preparation for its bid, Mountain View explored whether the City of Mountain Home could form an urban renewal district, thereby allowing the use of tax increment financing (TIF) on qualifying portions of the project's infrastructure. The Staff noted that Section 2.3.(b) of the Mountain View-Idaho Power Agreement provides that use of TIF for improvements (such as gas pipeline interconnection, electric interconnection, water supply, or sewer interconnection) may cause the base price of the project to increase. Staff Comments at 26. Although the Staff recognized that the availability of TIF is contingent on future events, Staff recommended that use of TIF should not increase the price paid to Mountain View or be included in rate base.

In its Reply Comments, Idaho Power recognized that the availability of TIF was a "highly unlikely occurrence." Idaho Power Reply at 4. Consequently, Idaho Power stated that the parties desire to delete subsection (iii) of Section 2.3.(b) of their Agreement, thereby eliminating any risk that the base price of the project could be increased as a result of TIF financing. *Id.*

Mountain View also responded to the Staff's TIF comments. Mountain View asserted the Staff was in error in assuming that TIF financing remains a component of Mountain View's bid. Mountain View explained that the TIF component was contained in its original bid but this bid was subsequently revised. Mountain View Reply at 1. Mountain View indicated that it currently "carries 100% of the risk that TIF funds will not be available, in some amount less than MVP's revised TIF estimate." *Id.* at 2.

As an alternative, Mountain View supported Staff's recommendation "provided that it is revised to address both reward and risk concerning TIF." *Id.* (emphasis original). If TIF funding is available for project infrastructure, Mountain View will share that bonus with the Company as a reduction to the contract price. Mountain View offered the Staff full TIF audit rights.

**Commission Findings:** Given Idaho Power's statement that it and Mountain View have deleted Section 2.3.b(iii) of their Agreement, there is no need to address this issue. Deleting this portion of the Agreement eliminates any risk to ratepayers that the base price of the project could increase as a result of TIF financing.

3. Sales Tax. The Staff assumed that the gas turbine was to be purchased from the secondary market. Consequently, Staff suggested that sales tax may not be assessed on the cost of the turbine. Staff Comments at 26-27. Staff did not object that sales taxes be included in the Company's Commitment Estimate. Mountain View asserted in its Reply that the Staff erred in assuming the generator was to be purchased in the secondary market.

**Commission Findings:** The Company and Staff generally agree that sales taxes on the project will be recoverable and are included in the Commitment Estimate. The misunderstanding concerns whether the turbine was acquired in the secondary market and, thus, possibly exempt from sales tax. As Mountain View explained, the turbine "is a brand new unit" and may be subject to sales tax. We find no dispute here.

### CONCLUSIONS OF LAW

Idaho Power is an electric corporation subject to the regulatory jurisdiction of the Commission. The Commission has jurisdiction over this matter pursuant to *Idaho Code* §§ 61-526 and 61-528.

We find that the future public convenience and necessity requires the construction of the Bennett Mountain project to be located in Mountain Home, Idaho.

We further find that in the ordinary course of events, that Idaho Power may recover the base price of the plant in the amount of \$44.6 million. Additional capital costs up to the Commitment Estimate of \$54.0 million will be subject to further review in a subsequent case once the plant is constructed.

### **ORDER**

IT IS HEREBY ORDERED that the Advocates for the West's request to stay and consolidate this case is denied.

IT IS FURTHER ORDERED that Idaho Power's Application seeking a Certificate of Public Convenience and Necessity to build the Bennett Mountain project is approved. Certificate No. 420 will be issued to Idaho Power.

IT IS FURTHER ORDERED that in the ordinary course of events Idaho Power may recover the reasonable and prudent costs of the Bennett Mountain project. Capital costs in excess of \$44.6 million will be reviewed in a subsequent case after the plant has been constructed. Capital costs (excluding transmission interconnection and legally required equipment changes) in excess of the Commitment Estimate cap of \$54.0 million will not be eligible for inclusion in the Company's rate base.

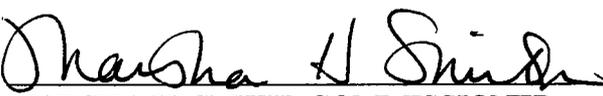
IT IS FURTHER ORDERED that Idaho Power provide Staff with periodic completion and cost expenditure reports for the Bennett Mountain plant. AFUDC is authorized but payments in excess of \$2.5 million are subject to further scrutiny and must be supported by a prudence showing prior to inclusion in rates.

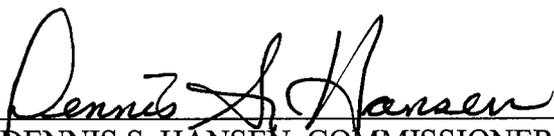
IT IS FURTHER ORDERED that the Company's reasonable and prudent fuel costs for the Bennett Mountain plant may be recovered through the PCA mechanism. Idaho Power's risk management policies and fuel procurement strategies will be evaluated when PCA costs are reviewed.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. IPC-E-03-12 may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this Case No. IPC-E-03-12. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

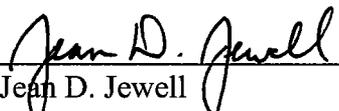
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 2<sup>nd</sup>  
day of January 2004.

  
PAUL KJELLANDER, PRESIDENT

  
MARSHA H. SMITH, COMMISSIONER

  
DENNIS S. HANSEN, COMMISSIONER

ATTEST:

  
Jean D. Jewell  
Commission Secretary

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