

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF**

FROM: DON HOWELL

DATE: OCTOBER 6, 2003

**RE: IDAHO POWER'S APPLICATION FOR A CERTIFICATE OF PUBLIC
CONVENIENCE AND NECESSITY FOR AUTHORITY TO BUILD THE NEW
BENNETT MOUNTAIN POWER PLANT IN MOUNTAIN HOME, CASE
NO. IPC-E-03-12**

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. *Idaho Code* § 61-526 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 proposes that the Bennett Mountain Power Plant be brought "on-line" in time to meet peak loads in the summer of 2005. Consequently, Idaho Power requests that the Application be processed expeditiously via Modified Procedure. The Company requests that the Commission issue a certificate and authorize the Company to recover its capital costs no later than December 31, 2003.

THE APPLICATION

A. The Proposed Plant

In February 2003, the Company issued a request for proposal (RFP) seeking bids to supply the Company with power in a range between 100 – 200 megawatts (MWs). In response to the RFP, the Company received 11 bids and eventually selected a bid from Mountain View Power, a Boise-based generation project developer. Mountain View proposed the construction of a 162-MW, simple-cycle natural gas-fired combustion turbine. The plant will be located on approximately 10 acres within the Mountain Home Industrial Park in Mountain Home. According to the Application, the City of Mountain Home has already issued a conditional use permit for

construction of the power plant. The plant site is also large enough to accommodate an additional future generating unit. Mountain View has contracted with Siemens-Westinghouse Power Corporation to furnish all of the labor, equipment, and materials and to perform all the engineering and construction of the proposed project. Upon completion of construction and passage of the necessary performance tests, title to the project will transfer from Mountain View to Idaho Power.

The natural gas necessary to fuel the plant will be supplied by Williams Northwest Pipeline. The pipeline currently passes less than one mile from the plant. The plant will be connected to Idaho Power's existing 230 kV transmission system that passes approximately four miles north of the plant site. Water service to the plant will be supplied by the City of Mountain Home. The Company notes that the City has substantial water supply capacity and priority water rights to serve the plant. The plant's wastewater will be discharged into the City's sewer system. The Bennett Mountain Plant will operate in compliance with all appropriate Department of Environmental Quality air and water quality standards.

B. Future Necessity

The Company maintains that its decision to construct the new generating plant is a result or outcome of its 2002 integrated resource plan (IRP). The IRP process evaluates the Company's future loads and resources and evaluates various options for meeting projected loads. These options include: the purchase of power from the wholesale market; the acquisition of additional generating resources; the implementation of pricing options; and/or implementing demand-side management programs. Order No. 29189. In short, the IRP is a planning process on how the Company intends to meet its statutory obligations to serve its customers' loads.

The Company's 2002 IRP included an assumption that Idaho Power would purchase up to 250 MWs of capacity from the proposed Garnet Plant which was to be constructed in Middleton. The Garnet capacity was to be acquired to meet the summer peaks beginning June 2005. In October 2002, the Company reported that the Garnet project was being discontinued because Garnet was unable to secure the necessary financing for the project. The Bennett Mountain Plant partly replaces the loss of the Garnet capacity.¹

¹ In Order No. 29286 issued July 8, 2003, the Commission also approved a Power Purchase Agreement (PPA) between Idaho Power and PPL Montana. The PPA will provide 83 MWs during heavy load hours, six days a week, 16 hours per day in the months of June, July and August beginning in June 2004.

C. Estimated Capital Costs

Idaho Power contracted with Mountain View for construction of the plant in the amount of \$44.6 million. Based primarily upon this contract, Idaho Power has offered a “Commitment Estimate.” The Commitment Estimate is based upon the cost of the Mountain View contract and includes “certain additional costs the Company knows it will incur but cannot quantify with precision at this time.” Application at 4. These additional costs include (but are not limited to): sales taxes, AFUDC on progress payments made to Mountain View during construction; the cost for Idaho Power to monitor the construction project; the cost of capitalized start-up fuel; construction contingencies such as change orders; and other unforeseen events. Idaho Power’s Commitment Estimate for the project is \$54.0 million. The Commitment Estimate would also be subject to other adjustments to account for “documented legally required equipment changes and material changes in assumed escalation rates.” *Id.* at 5.

Idaho Power has committed to procure the Bennett Mountain Plant for the Commitment Estimate. The Company seeks initial approval to include the capital costs of the Bennett Mountain Plant in its Idaho rate base for only those costs actually incurred up to the Commitment Estimate of \$54.0 million. If the final capital costs of the Bennett Mountain Plant exceed the Commitment Estimate, Idaho Power will absorb the extra costs.

The Commitment Estimate does not include the cost of constructing the necessary transmission facilities to interconnect the plant with the Company’s nearby transmission system. Although actual studies for the transmission costs have not been completed, Idaho Power estimates that constructing the necessary transmission facilities will not exceed \$11.6 million. Natural gas fuel costs should be recovered in the annual power cost adjustment (PCA) mechanism.

In summary, Idaho Power requests that the Commission issue an Order granting a Certificate of Public Convenience and Necessity to construct the project and authorize the rate-basing of plant costs up to the Commitment Estimate of \$54.0 million (excluding transmission). Idaho Power also requests that the Order confirm that the fuel costs for the project will be included in the Company’s annual PCA proceeding.

D. Modified Procedure

The Company is requesting that the Commission expedite its review of the Application. The Company maintains that its contract with Mountain View contains a “provisional acceptance date” of April 1, 2005. Company witness Greg Said states that Mountain View needs to receive a

notice to proceed on or before December 31, 2003. Idaho Power does not intend to issue such a notice until it has obtained the requested certificate from the Commission. To meet this agreement condition, the Company asks that the Application be processed expeditiously using Modified Procedure. To expedite the process, the Company filed the direct testimony of Greg Said in support of the Application. In addition, Idaho Power has assembled supporting documents that it anticipates the Staff and any intervenors will wish to review. Rather than utilize a formal discovery process, the Company indicated its willingness to work on an informal basis to expedite the review process.

STAFF RECOMMENDATION

At this juncture, Staff recommends that the Commission issue a Notice of Application and set a deadline for intervention. Given the expedited request, Staff recommends that the Commission convene a prehearing conference following the decision meeting scheduled for October 15, 2003. Convening a prehearing conference on the October 15 will allow the Commission to determine the number of parties participating in this matter. The prehearing conference will also allow the Commission to receive input regarding the processing of the Application and determine the scope of the proceeding.

COMMISSION DECISION

Does the Commission wish to issue a Notice of Application?

Does the Commission wish to establish a deadline for intervention no later than noon on October 15?

Does the Commission wish to convene a prehearing conference in this matter to follow the decision meeting scheduled for October 15, 2003?

Anything else?



Don Howell

Vld/M:IPCE0312_dh