

## DECISION MEMORANDUM

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

**FROM: SCOTT WOODBURY**

**DATE: MARCH 10, 2004**

**RE: CASE NO. IPC-E-04-5 (Idaho Power)  
FIRM ENERGY SALES AGREEMENT  
RENEWABLE ENERGY OF IDAHO, INC. (EMMETT FACILITY)**

On February 19, 2004, Idaho Power Company (Idaho Power; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting approval of a Firm Energy Sales Agreement (Agreement) between Idaho Power and Renewable Energy of Idaho, Inc. (Renewable Energy) dated February 12, 2004.

Renewable Energy proposes to design, construct, install, own, operate and maintain a 17.5 megawatt (MW) biomass (primarily wood waste) generating facility to be located at the old Boise Cascade Plant site near Emmett, Idaho (the Project). The Project will be a qualified small power production facility (QF) under the Public Utilities Regulatory Policies Act of 1978 (PURPA).

Under the terms of the Agreement, Renewable Energy has elected to contract with Idaho Power for a 20-year term. The Agreement contains non-levelized published avoided cost rates as currently established by the Commission for energy less than 10 MW and a negotiated price for energy over 10 MW.

As in recent prior submitted agreements, Idaho Power utilizes a cogeneration small power producer (CSPP; QF) agreement that is consistent for all CSPP projects regardless of their resource (wind, hydro, geothermal, wood waste, etc.) that incorporates (1) current IPUC Orders, (2) current technologies, and (3) current utility industry standards. The submitted Agreement, the Company states, contains many of these concepts as well as unique negotiated provisions due

to the fact that the Project wishes to routinely deliver more than 10 MW to Idaho Power. The following is a brief description of some of these concepts and unique provisions:

**A: Ten MW or Smaller Project Size and Eligibility for the Published Avoided Cost Rate:** Noting that the Commission has established a 10 MW size limit for PURPA projects eligible for QF published avoided cost rates, Idaho Power points out that the Commission did not specify how the 10 MW limit was to be measured. Historically, the Company recognizes, the nameplate rating of the facility has been considered to be the measurement for this limit. Idaho Power suggests in this filing that it is reasonable that this limitation be based on that energy delivery to the utility and not nameplate rating.

Many QF facilities, due to less than 100% capacity factors and unknown incremental fuel supplies, the Company contends, are not able to commit to a long-term firm commitment of the incremental energy production above 10 MW. To address this issue, Idaho Power has developed a concept of "Optional Energy."

Optional Energy is all energy that the Project delivers to Idaho Power that exceeds 10,000-kilowatt hours in a single hour, typically non-firm energy, as defined in ¶ 1.18 of the Agreement. Optional Energy is identified through hourly metering. The price of this energy is a price negotiated between Idaho Power and the specific project. As non-firm energy, Idaho Power considers the value of this energy to be a variable current month market based price.

Renewable Energy requested that fixed prices for its Optional Energy be established rather than receiving the monthly variable market prices. Idaho Power and Renewable Energy, therefore, negotiated fixed prices for the Optional Energy (Section 7.5 of the Agreement) in consideration of the Project providing year-ahead firm commitments of the monthly Optional Energy amounts (Section 6.4 of the Agreement). The concept of Optional Energy, the Company contends, maintains the integrity of the 10 MW limitation and the QF published avoided cost rates but also allows the project developer the ability to assess its specific facility's performance, capital cost and other risk/benefit factors in designing the size of the QF's individual facilities.

Also applying to this Optional Energy, are Company-developed Shortfall and Surplus Energy concepts (Sections 7.7 and 7.8 of the Agreement), as previously included in the Company's Tiber Montana LLC contract approved by the Commission in Order No. 29232 and the recently submitted Agreement with United Materials of Great Falls, Inc. (Case No. IPC-E-04-1).

B. **Seasonality:** As an incentive for Renewable Energy to deliver energy to the Company during times when it is of greater value to Idaho Power, the Company has refined the seasonalization of rates to coincide to the months in which Idaho Power has identified actual energy needs and periods of higher demand. Reference Agreement Sections 6.2, 7.1 and 7.5.

C. **Environmental Attributes:** As reflected in Agreement Section 8, Idaho Power notes that it has filed a Petition with the Commission in Case No. IPC-E-04-2 seeking a Commission ruling concerning whether the environmental attributes associated with a QF project are owned by the project or the utility at the time a utility purchases electricity from a QF project. The Commission's final Order will be included and become an integral part of the Agreement. Renewable Energy reserves the right to cancel the Agreement within 30 days of the Commission's final Order regarding Idaho Power's Petition.

Agreement Section 24 provides that the Agreement will not become effective until the Commission has approved all the Agreement terms and conditions and declared that all payments that Idaho Power makes for purchases of energy to Renewable Energy will be allowed as prudently incurred expenses for ratemaking purposes. Should the Commission approve the Agreement, Idaho Power intends to consider the effective date of the Agreement to be February 12, 2004. As reflected in the Company's Application, the Agreement contains non-levelized published avoided cost rates in conformity with applicable Commission Orders.

### **Commission Decision**

Idaho Power requests that the Commission issue an Order approving the Firm Energy Sales Agreement between Idaho Power Company and Renewable Energy of Idaho, Inc. without change or condition. The Company further requests a Commission finding that all payments for purchases of energy under the Agreement will be allowed as prudently incurred expenses for ratemaking purposes.

Staff recommends that the Company's Application in Case No. IPC-E-04-5 be processed pursuant to Modified Procedure, i.e., by written submission rather than by hearing. Reference Commission Rules of Procedure, IDAPA 31.01.01.201-204. Does the Commission agree with Staff's recommended procedure?

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Scott Woodbury

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