

BARTON L. KLINE, ISB # 1526
 MONICA B. MOEN, ISB # 5734
 Idaho Power Company
 1221 West Idaho Street
 P. O. Box 70
 Boise, Idaho 83707
 Telephone: (208) 388-2682
 FAX: (208) 388-6936
 E-mail: BKline@idahopower.com
MMoen@idahopower.com

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 IDAHO PUBLIC
 UTILITIES COMMISSION

Attorneys for Idaho Power Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE PETITION OF)
 IDAHO POWER COMPANY FOR AN) CASE NO. IPC-E-05- 22
 ORDER TEMPORARILY SUSPENDING)
 IDAHO POWER'S PURPA OBLIGATION) PETITION
 TO ENTER INTO CONTRACTS TO)
 PURCHASE ENERGY GENERATED BY)
 WIND-POWERED SMALL POWER)
 PRODUCTION FACILITIES.)
 _____)

Idaho Power Company ("Idaho Power" or "the Company"), pursuant to RP 053, hereby requests that the Commission issue its order temporarily suspending Idaho Power's obligation, under §§ 201 and 210 of the Public Utility Regulatory Policies Act of 1978 ("PURPA") and various Commission orders, to enter into new contracts to purchase energy generated by qualifying wind-powered small power production facilities ("QFs" or "Qualifying Facilities"). Idaho Power's request for a temporary suspension of its PURPA purchase obligation is limited to new contracts for purchases of energy from wind-powered QFs. The suspension would not affect new contracts with QFs utilizing other generating technologies.

Idaho Power requests that this temporary suspension remain in effect for a period of time sufficient to allow the Commission to investigate the impacts on Idaho Power's customers arising out of the addition of substantial amounts of wind-powered generation projects. Such a Commission investigation would consider: (1) the impact of intermittent wind resources on the Company's total cost of power supply, (2) the impact of intermittent wind resources on the reliability of electric service to customers, (3) whether the current avoided cost methodology correctly measures the power supply costs the Company can actually avoid by adding intermittent wind generating resources, and (4) such other matters as the Commission deems appropriate. This Petition is based on the following:

Background

1. PURPA Requirements. Sections 201 and 210 of PURPA require electric utilities to offer to purchase electric energy from qualifying cogeneration and small power production facilities.¹ PURPA further specifies that the purchase rates set by state Commissions for electric utility purchases of energy generated by QFs may not exceed the incremental cost to the electric utility of alternative electric energy.² PURPA defines incremental cost as the cost to the electric utility of the electric energy which, but for the purchase from such QFs, such utility would generate or purchase from another source.³ PURPA also requires state Commissions to set the rates for purchases of power from QFs at levels that are just and reasonable to the utility's

¹ 16 USC § 824a-3(a)

² 16 USC § 824a-3(b)

³ 16 USC § 824a-3(d)

customers and in the public interest and that do not discriminate against QFs, but that are not more than avoided costs.⁴

2. Higher Avoided Cost Rates and Multiple Tax Incentives Have Stimulated Wind-Powered QF Development. In Order No. 29646 issued on December 1, 2004, in Case No. IPC-E-04-25, the Commission established the current avoided cost purchase rates (“published rates”) which Idaho Power is legally obligated to offer to QFs that are designed to generate not more than 10 aMW per month. In accordance with Order No. 29646, the current average levelized “published rates” for 20-year QF contracts are approximately \$61.00 per MWh. This average levelized rate is approximately 25% higher than the average levelized published purchase rates in effect in 2003.⁵

Since Order No. 29646 was issued, Idaho Power has received approval from the Commission for QF contracts with a total nameplate capacity of 71.5 MW, with wind-powered QFs making up 61.5 MW of that total. Idaho Power currently has pending before the Commission applications for approval of additional wind-powered QF contracts in the amount of 21 MW. In addition, Idaho Power has received contacts from developers intending to pursue new QF projects with a nameplate capacity of 267.5 MW including 193 MW of new wind-powered QFs. Prior to the issuance of Order No. 29646, Idaho Power had less than 1 MW of QF wind-powered generation under contract.

⁴ 16 USC § 824a-3(b)(1) and (2).

⁵ The published rate for 2003 QF contracts set in Order No. 29124 was approximately \$49 per MWh. The primary reasons the avoided cost rate increased so sharply between 2003 and 2004, is because Idaho Power’s cost of capital increased and the Northwest Planning and Conservation Council’s forecast of natural gas costs increased in 2004. In accordance with the approved avoided cost methodology established in Order No. 29124, these increases were reflected in Order No. 29646.

Another major factor stimulating wind-powered QF development is the package of tax incentives adopted at the state and federal levels. Just prior to the issuance of Order No. 29646, the federal government reinstated an expired income tax credit equal to \$18.00 per MWh. This production tax credit, together with accelerated depreciation rules and other tax incentives at the federal level, has stimulated the development of wind generation. In addition, the state of Idaho has recently enacted sales tax exemptions to encourage development of alternative generating resources. (Idaho Code, § 63-3622QQ.) The combination of federal and state tax incentives and the increase in energy purchase rates established in Order No. 29646 has caused a rapid increase in the number of QFs, including wind-powered QFs, seeking contracts to sell their generation to Idaho Power.

Attachment 1 graphically depicts the level of development activity for all QF facilities (including wind) since PURPA was implemented in Idaho. Attachment 1 also shows the sharp increases in the level of QF development activity, including wind-powered QF projects seeking to sell their output to Idaho Power since Order No. 29646 was issued in December of 2004.

Impacts of Accelerated Wind Development

1. **Interaction Between PURPA Published Rates and Bid Prices In RFPs.** The Commission accepted Idaho Power's 2004 Integrated Resource Plan ("IRP") in Order No. 29762 issued on April 22, 2005. In the IRP, Idaho Power, in consultation with the Integrated Resource Plan Advisory Council ("IRPAC"), considered and evaluated a full range of resource options, including wind generation. Based on

those consultations, the Company used an average price of \$43.00 per MWh for assessing the cost of wind resources.

Utilizing the \$43.00 per MWh price assumption, the 2004 IRP called for 350 MW of wind-powered resource to be acquired in the near term.⁶ The selected resource portfolio (Portfolio No. 11) also included up to 200 MW of combustion turbine capacity, in part, to accommodate the need to provide “firming” for the low-capacity factor, intermittent wind resources.⁷

Idaho Power’s 2004 IRP describes the Company’s intention to issue competitive requests for proposals (“RFPs”) for 200 MW of wind-powered resource in 2005 in its near-term action plan (“2005 RFP”). The 2005 RFP was issued on January 13, 2005. The IRP also calls for an RFP for an additional 150 MW of wind-powered resources in 2008 (“2008 RFP”).⁸

In deciding to move forward with an RFP program to competitively acquire wind resources, the Company was hopeful that a bidding process would allow the Company to take advantage of competition and the economies of scale associated with larger size wind generation projects. It was hoped that this strategy would moderate the total cost of wind energy acquired by averaging the higher cost of smaller QF wind projects acquired at the avoided cost rate with the presumably lower cost of wind acquired by competitive RFPs. Unfortunately, these expectations have not been met.

Idaho Power has recently reviewed the bid responses received in the 2005 RFP. The bids received, on average, propose purchase rates of approximately

⁶ IRP, p. 2.

⁷ IRP, p. 75.

⁸ IRP, p. 77.

\$55.00 per MWh. Idaho Power believes that the bids the Company has received in the 2005 RFP are not reflective of market prices for wind generation and are being unduly influenced by the current published avoided cost rates. The Company's belief that the bids it has received in the 2005 RFP have been unduly influenced by the published avoided cost rates is supported by recent announcements by other regional utilities of power purchase agreements with wind resource developers with substantially lower pricing structures. For example, in the state of Montana, NorthWestern Energy recently received Montana Commission approval for an agreement with Judith Gap LLC under which NorthWestern will purchase 135-150 MW of wind resource at a price of \$31.71 per MWh.⁹

In light of the large number of MWs of QF wind resources already acquired and proposed and the high bid prices received in the 2005 RFP, it is likely that Idaho Power will be required to reduce the amount of wind generation acquired through the 2005 RFP. For the same reasons, it is likely that the 2008 RFP will need to be deferred or perhaps eliminated.

In Order No. 29632 issued in case Nos. IPC-E-04-8 and IPC-E-04-10, the Commission limited the availability of the published rates to QF projects with the capability to generate no more than 10 aMW in any given month. While limiting the entitlement to published rates to projects up to 10 aMW provided much-needed certainty as to which QF projects were entitled to the published rates, the decision to set the entitlement to published rates at 10 aMW allows large (i.e., 30 MW nameplate capacity assuming a 33% capacity factor) wind resources to qualify for the published

⁹ Public Service Commission of Montana Final Order No. 6633b issued on March 31, 2005, in Docket D2005.2.14.

rates. It will not be difficult for a 150 MW wind project to reconfigure itself into five 30 MW wind projects and qualify each project for the published rates.

As a result, without a temporary suspension of QF purchases, the unsuccessful wind developers bidding in the 2005 RFP may decide to reconfigure their projects to qualify for the PURPA mandatory purchase obligation at published QF rates. If that occurs, Idaho Power will be presented with an unmanageable influx of intermittent generation. Idaho Power believes that the only way to allow careful consideration of the issues raised by this petition and assure that customers are not locked into long-term contracts at above-market prices is for the Commission to permit the Company to temporarily suspend its obligation to purchase energy from new wind-powered QF projects.

2. The Potential Addition of Large Amounts of QF Wind Generation Could Adversely Affect System Reliability. It is undisputed that wind generation is an intermittent resource. Generation from wind-powered resources may drop rapidly due to lack of wind or, even more problematically for the utility, due to high winds causing wind machines to shut down to prevent over-speed damage. To assure system reliability, intermittent wind resources must be "firmed" by ancillary services. This firming can be provided by the purchase of load-following services and reserves from a third party supplier if the ancillary services and transmission are available on a firm, long-term basis or self-provided by the utility primarily through the acquisition of peaking resources, such as gas-fired combustion turbines, that the utility can dispatch.

In the Company's 2004 IRP, the Company performed an analysis of the cost and risks associated with a resource portfolio consisting of 1,000 MW of wind

(Portfolio No. 3). That analysis concluded that in order to safely integrate 1,000 MW of intermittent wind generation, it would be necessary to contemporaneously add 640 MW of combustion turbines to provide capacity when the intermittent wind resources were not operating. Adding intermittent resources without also adding ancillary firming capacity will adversely affect system reliability.

When the Commission in Order No. 29124 adopted the combined cycle combustion turbine as the surrogate avoided resource for setting avoided costs, the need to consider the costs associated with the ancillary services needed to integrate intermittent wind resources onto the utility's system was addressed. At that time neither the Commission nor Idaho Power had much experience with wind resources. Idaho Power had not signed any significant wind QF contracts or built any wind resources.

The time has come for Idaho Power, perhaps in conjunction with an independent third-party consultant, to undertake a thorough analysis of the amount of intermittent resources that can be added to the Company's system without jeopardizing system reliability. In addition, the costs of acquiring ancillary services such as combustion turbine peaking capacity in conjunction with adding intermittent QF wind resources must be considered in determining the costs the Company can avoid by purchasing QF wind resources. An analysis of this type has not been performed looking specifically at Idaho Power's system. A thorough analysis will require time and considerable effort.

3. Avoided Costs For Wind-Powered Resources Must Be Re-Addressed. Idaho Power and the Commission have generally resisted developing avoided cost rates specifically targeted to individual QF generating technologies.

However, in light of the large number of actual and potential QF wind resources seeking PURPA contracts, it has become apparent to Idaho Power that a reassessment of how avoided costs should be computed for intermittent wind generating resources should be undertaken. Such an analysis would, for the first time, consider the above-described costs of firming and integrating intermittent QF wind resources into the Company's system.

4. A Temporary Suspension of New QF Wind Projects Is Needed. In Idaho Power's judgment, the Commission cannot conduct a review of system reliability issues and wind-specific avoided costs without first instituting a temporary suspension of the PURPA mandatory purchase obligation for new wind QF projects. Prior history clearly demonstrates that when a utility asks the Commission to consider changing avoided cost rates, potential developers inundate the utility with contract and interconnection requests in order to obtain "grandfather" status. To undertake an orderly wind resource avoided cost investigation, it is imperative that the Commission implement a temporary suspension of mandatory contracting for purchases of wind QF resources. Unless the Commission orders a temporary suspension of the mandatory contract obligation under PURPA, Idaho Power is concerned that wind QF developers will inundate Idaho Power with requests for contracts and file complaints, meritorious or otherwise, in order to position themselves for an entitlement to be "grandfathered" to the existing published avoided cost rates.

Commission authorization of a temporary suspension of the PURPA contract obligation is not without precedent. In Order No. 19348 issued in Case No. U-1500-156, the Commission, on its own motion, imposed a one-year moratorium on

purchases from QFs located within the service areas of non-investor-owned utilities that purchase energy supplies from BPA. That moratorium was eventually lifted and Idaho Power continues to be the purchaser of considerable amounts of energy from QF projects located in the service areas of Idaho municipalities and co-ops. Such purchases will likely increase, as many potential QF resources are located outside Idaho Power's service area and municipalities and co-ops remain unwilling to purchase QF resources.

5. Actions To Be Taken During the Suspension Period. During the period of suspension, Idaho Power will undertake the following: (1) The Company will retain an independent third party consultant to assist the Company in preparing an analysis which will assess the total amount of additional wind resources the Company's system can absorb without adversely affecting the Company's overall power supply costs and system reliability. The results of this analysis will be presented to the Commission for its consideration. (2) The Company will prepare and file with the Commission a proposal for computing avoided costs specifically tailored to the attributes of intermittent wind-powered resources, including the additional costs attributable to peaking resources to integrate significant amounts of wind generation. (3) Idaho Power will prepare and present to the Commission a report describing possible steps that could be taken to increase the likelihood that future RFPs for wind resources reflect actual resource costs and market prices for wind resources rather than published avoided cost rates for all types of smaller QF projects. This analysis will include a review of the pros and cons of the utility including an ownership option for wind resources as a way of providing pricing discipline within the RFP process.

6. Procedure. If the Commission determines that it is in the public interest to consider the issues raised by Idaho Power in this Petition, Idaho Power suggests that the Commission first issue its Order granting the temporary suspension requested by Idaho Power. Secondly, the Company proposes that the Commission expeditiously convene a prehearing conference to define the issues to be addressed and to establish a schedule for processing and considering the issues raised by this Petition. The prehearing conference order would include a schedule for Idaho Power to present the reports described in Section 5 above.

Conclusion

7. It is important to emphasize that this Petition does not represent a retreat by Idaho Power from a commitment to acquire a significant amount of renewable resources within a balanced resource portfolio consisting of new generation, transmission and demand-side management initiatives. This Petition is necessitated by a number of potentially adverse consequences for our customers that neither the Company nor the Commission could have foreseen when the current process for setting QF rates began. The Company believes the issues raised in this Petition should be considered by the Commission at this time and not after the impacts on customers have become inevitable and acute.

WHEREFORE, Idaho Power respectfully requests that the Commission issue its Order:

1. Temporarily suspending Idaho Power's obligation under §§ 201 and 210 of PURPA to enter into new contracts to purchase energy generated by wind-powered QFs; and

2. Convening a prehearing conference to define issues and establish a schedule for processing and considering the issues raised in this Petition.

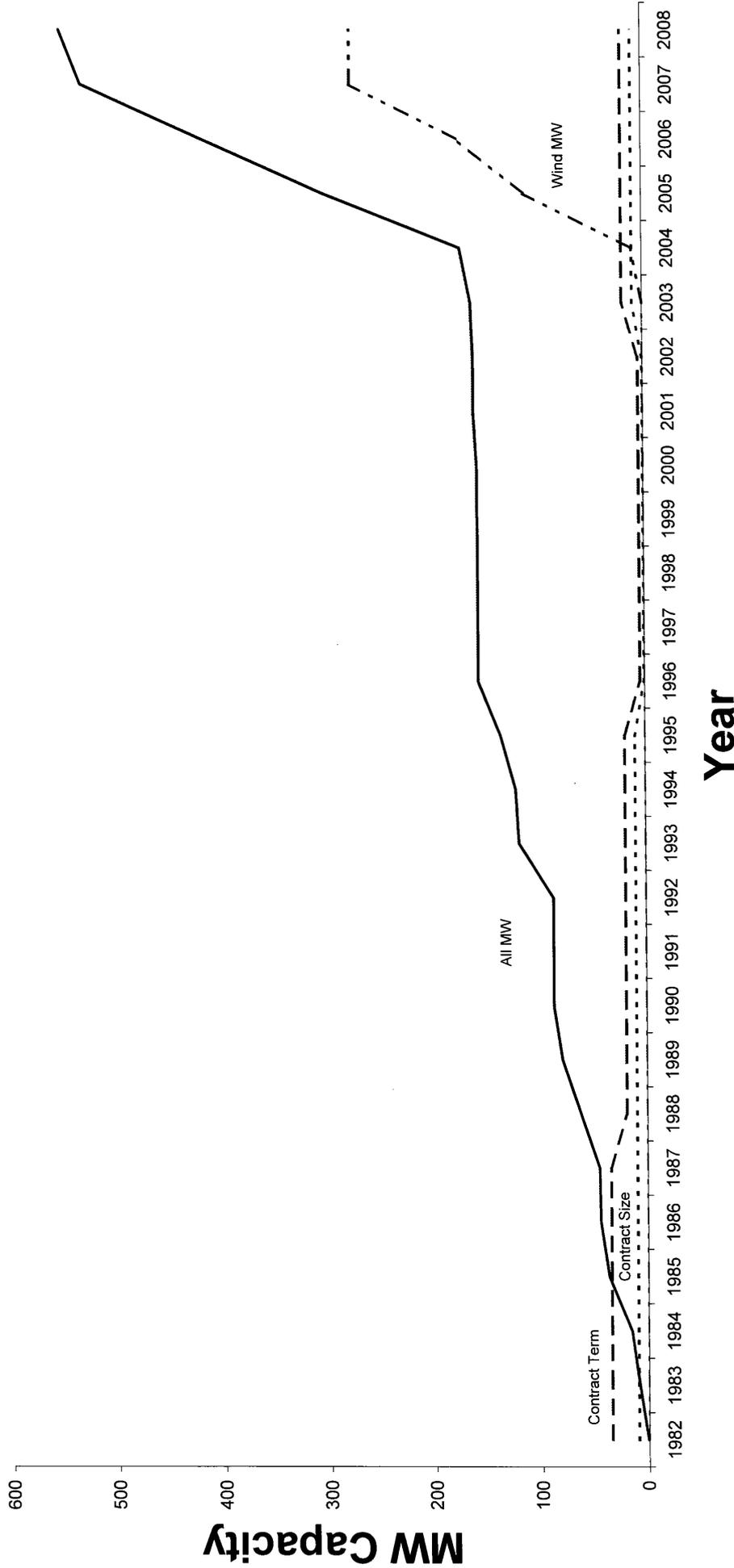
Respectfully submitted this 17th day of June, 2005.

A handwritten signature in black ink, appearing to read 'B. L. Kline', written over a horizontal line.

BARTON L. KLINE
Attorney for Idaho Power Company

ATTACHMENT 1

QF Nameplate Capacity



	1982	1983	1984	1985	1986	1987	1988	1989	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004	2005	2006	2007	2008	
New MW	1	8	7	21	7	1	17	17	8	0	0	32	3	14	21	0	0	0	0	0	3	0	2	10	130	115	114	20
Cumulative Mw	1	9	16	37	45	46	63	80	88	88	88	120	123	137	158	158	158	158	158	161	161	163	173	302	417	530	560	
Contract Length	35	35	35	35	35	35	20	20	20	20	20	20	20	20	5	5	5	5	5	5	5	5	20	20	20	20	20	20
Size limitation	10	10	10	10	10	10	10	10	10	10	10	10	10	10	1	1	1	1	1	1	1	1	10	10	10	10	10	10
New Wind MW	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	11	102	63	101	0	
Cumulative Wind Mw	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	0	11	112	175	276	276	