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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

JOHN R. GALE

1 Q. Please state your name and business address.

2 A. My name is John R. Gale and my business address
3 is 1221 West Idaho Street, Boise, Idaho.

4 Q. By whom are you employed and in what capacity?

5 A. I am employed by Idaho Power Company as the
6 Vice President of Regulatory Affairs.

7 Q. Please describe your educational background.

8 A. I hold a Bachelors of Business Administration
9 and a Masters of Business Administration from Boise State
10 University. I serve as an advisor to the University's College
11 of Business and Economics. Additionally, I have completed the
12 Edison Electric Institute's Advanced Ratemaking School and the
13 University of Idaho's Public Utility Executive Course.

14 Q. Please describe your work experience with Idaho
15 Power Company.

16 A. In October 1983, I accepted a position as Rate
17 Analyst with Idaho Power Company. In March 1990, I was
18 assigned to the Company's Meridian District Office for one
19 year where I held the position of Meridian Manager. In March
20 1991, I was promoted to Manager of Rates. In July 1997, I was
21 named General Manager of Pricing and Regulatory Services. In
22 March of 2001, I was promoted to Vice President of Regulatory
23 Affairs. As Vice President of Regulatory Affairs, I am
24 responsible for the overall coordination and direction of the

1 Pricing & Regulatory Department, including development of
2 jurisdictional revenue requirements and class cost-of-service
3 studies, preparation of rate design analyses, and
4 administration of tariffs and customer contracts. In my
5 current position, I am also responsible for policy matters
6 related to the economic regulation of Idaho Power Company
7 ("Idaho Power" or "Company").

8 Q. What topics will you discuss in your testimony
9 in this proceeding?

10 A. I will discuss the role of the Integrated
11 Resource Plan ("IRP") at Idaho Power Company, the Company's
12 actions to implement the IRP recommendations, the
13 complications encountered in acquiring the wind resources
14 described in the 2004 IRP portfolio, the resulting request for
15 a temporary suspension in wind purchases under the Public
16 Utility Regulatory Policies Act of 1978 ("PURPA"), and a
17 recommendation on handling transitional PURPA agreements.

18 Q. What is the Integrated Resource Plan?

19 A. The Integrated Resource Plan is a comprehensive
20 look at Idaho Power's present and future demands for
21 electricity, as well as a plan for meeting those demands. The
22 plan addresses how Idaho Power expects to meet its Idaho and
23 Oregon customers' growing electrical demand over a 10-year
24 planning horizon. The IRP describes the Company's projected

1 need for additional electricity and the resources necessary to
2 meet that need while maintaining reliability and efficiency.
3 Both the Idaho and Oregon public utility commissions require
4 state electric utilities to file an IRP every two years. The
5 current plan was filed with the commissions in August 2004.

6 Q. What purpose does the IRP serve at Idaho Power?

7 A. The IRP is the Company's principal resource
8 planning document and the foundation for making resource
9 acquisition decisions. The near-term action items described
10 in the plan serve as a blueprint for Company action.
11 Obviously, circumstances change over time and these
12 circumstances are considered along with the IRP as part of
13 resource acquisition decisions. Nevertheless, the IRP is our
14 starting point.

15 Q. Please generally describe the results of the
16 most recent IRP.

17 A. The 2004 IRP is the Company's most recently
18 completed plan. The plan examined 12 different resource
19 portfolios and ultimately selected a diversified portfolio
20 with nearly equal amounts of renewable generation and
21 traditional thermal generation as the preferred resource
22 portfolio. The 2004 IRP has been accepted for filing by the
23 Idaho Public Utilities Commission ("IPUC" or "Commission") and
24 acknowledged by the Public Utility Commission of Oregon.

1 production tax credit, together with accelerated depreciation
2 rules and other tax incentives at the federal level, has
3 stimulated the development of wind generation. At the state
4 level, the Idaho legislature recently enacted sales tax
5 exemptions (Idaho Code, § 63-3622QQ) to encourage the
6 development of alternative generating resources, including
7 wind. In addition, recent IPUC Orders that have increased the
8 term of QF contracts to 20 years (IPUC Order No. 29124) and
9 have made projects producing less than 10 average MW per month
10 eligible to receive the published rates (IPUC Order No. 29632)
11 have created a fertile environment for wind development.

12 The combination of federal and state tax incentives,
13 the increase in energy purchase rates established in Order No.
14 29646, and the favorable contract terms and conditions
15 described above, plus the fact that QF developers retain the
16 right to any green tags associated with QF development, have
17 all played a role in the rapid increase in the number of QFs,
18 including wind-powered QFs, seeking contracts to sell their
19 generation to Idaho Power.

20 Q. Has the increased QF activity impacted the
21 responses to a Request for Proposals issued by the Company?

22 A. I believe so. As previously stated, the 2004
23 IRP called for 350 MW of wind-powered resources to be acquired
24 in the near term, 200 MW in 2005, and an additional 150 MW in

1 2008. In deciding to move forward with an RFP program to
2 competitively acquire wind resources, Idaho Power was hopeful
3 that a bidding process would allow the Company to take
4 advantage of competition and the economies of scale associated
5 with large-sized wind generation projects. Idaho Power
6 anticipated that this strategy would moderate the total cost
7 of wind energy acquired by averaging the higher cost of
8 smaller QF wind projects acquired at the avoided cost rate
9 with the presumably lower cost of wind acquired by competitive
10 RFPs.

11 Q. Have these expectations been met?

12 A. No, these expectations have not been met. The
13 bids received in response to the 2005 RFP are, on average,
14 higher than the levelized prices contemplated in the 2004 IRP.

15 Q. Is it possible that the published rates for QFs
16 influenced the bidding?

17 A. Yes, I believe so.

18 Q. On what basis is Idaho Power establishing this
19 belief?

20 A. To begin with, Idaho Power's 2004 IRP modeled
21 costs to acquire wind resources was \$42.94 per MWh based upon
22 information obtained from public sources and wind developers.
23 The Company also was aware of recent announcements made by
24 other regional utilities concerning power purchase agreements

1 they had entered into with wind resource developers with
2 substantially lower pricing structures. In the state of
3 Montana, for example, NorthWestern Energy recently received
4 approval from the Public Service Commission of Montana (Final
5 Order No. 6633b, issued on March 31, 2005) for an agreement
6 with Judith Gap LLC under which NorthWestern will purchase
7 135-150 MW of wind resource at a price of \$31.71 per MWh.

8 Q. What impact has the accelerated level of QF
9 wind development had on Idaho Power's recently issued Request
10 for Proposals for 200 MW of wind-powered resources?

11 A. In light of the large number of MWh of QF wind
12 resources already acquired, approved and proposed, and the
13 high bid prices received in the 2005 RFP, it is almost certain
14 that Idaho Power will reduce the amount of wind generation it
15 will obtain through the 2005 RFP. At the same time, it is
16 likely that the 2008 RFP will need to be either reduced or
17 eliminated altogether.

18 Q. If Idaho Power reduces or eliminates the amount
19 of wind required in the 2005 and 2008 RFPs, does the
20 possibility exist that wind developers who either responded to
21 or intend to respond to future RFPs will submit applications
22 for QF developments?

23 A. Yes. That is a real concern to the Company.
24 With only minor modifications, it would not be difficult for a

1 larger wind project to be reconfigured into several smaller
2 projects each of which would qualify for the published rates.

3 Q. What would be the consequences to Idaho Power
4 and its customers if previous RFP bidders reconfigured their
5 facilities to comport with PURPA requirements and Idaho Power
6 were required to acquire a disproportionate quantity of wind
7 powered generation through PURPA?

8 A. That scenario would lock the Company and its
9 customers into long-term contracts at prices that the Company
10 asserts are not appropriate for an intermittent energy
11 resource such as wind-powered generation. These circumstances
12 could potentially create an unmanageable influx of
13 intermittent generation on the Company's system.

14 Q. Could the addition of large amounts of QF wind
15 generation adversely affect the reliability of Idaho Power's
16 system?

17 A. Yes, the addition of large amounts of QF wind
18 generation could adversely affect system reliability. Wind
19 generation is an intermittent resource subject to the natural
20 variability in the wind. Thus, the energy output from this
21 resource may fluctuate tremendously from hour-to-hour or even
22 minute-to-minute independent of Idaho Power's system needs.
23 For example, a 10 MW wind facility may be at full output at
24 one moment and minutes later be at a very low to no output.

1 As a result of these wind generation fluctuations and to
2 assure system reliability, wind-powered generation must be
3 "firmed" by ancillary services.

4 Q. By what means can intermittent wind resources
5 be firmed?

6 A. Firming of a wind resource can be provided by
7 the purchase of load-following services and reserves from a
8 third party if the ancillary services and transmission are
9 available on a firm, long-term basis. Alternatively, firming
10 can be self-provided by the utility primarily through other
11 resources in the utility's power supply portfolio, such as
12 excess hydro capacity or gas-fired combustion turbines, that
13 the utility can dispatch as necessary.

14 Q. Does the combined cycle combustion turbine,
15 adopted by the Commission as the surrogate avoided cost
16 resource for setting avoided costs, adequately establish the
17 costs of integrating intermittent wind resources into Idaho
18 Power's system?

19 A. No, it does not. That surrogate avoided cost
20 methodology does not consider the costs associated with the
21 ancillary services, described in my earlier testimony, that
22 are required to reliably integrate intermittent wind resources
23 onto the Company's system. Neither the Company nor the

1 Commission foresaw these consequences when the current process
2 for setting QF rates was established.

3 Q. Is it fair to say that there are costs
4 associated with integrating intermittent wind resources onto
5 Idaho Power's system that are not reflected in the published
6 rates approved by the Commission?

7 A. Yes, that is a fair statement.

8 Q. What does the Company propose in response to
9 these circumstances?

10 A. In order to assess if wind resources are
11 impacting Idaho Power's system in a manner that is too much,
12 too soon, and too expensive, Idaho Power proposes to seek a
13 temporary suspension on new PURPA wind projects until the
14 impacts of integrating these resources onto the Company's
15 system can be more thoroughly evaluated from a cost and
16 reliability standpoint. The Company anticipates that there
17 are a number of activities that will facilitate this
18 evaluation.

19 Q. What activities does Idaho Power anticipate
20 will need to be taken during a suspension period if the
21 Commission would approve such request?

22 A. Idaho Power proposes to undertake the following
23 activities during a Commission-approved suspension period:

24 (1) the Company would retain an independent third party

1 consultant to assist Idaho Power in preparing an analysis
2 which would assess the total amount of additional wind
3 resources the Company's system can absorb without adversely
4 affecting the Company's overall power supply costs and system
5 reliability; (2) Idaho Power would prepare and file with the
6 Commission a proposal for computing avoided costs specifically
7 tailored to the attributes of intermittent wind-powered
8 resources, including the additional costs attributable to
9 peaking resources required to integrate significant amounts of
10 wind generation into Idaho Power's resource portfolio; and (3)
11 Idaho Power would prepare and present to the Commission a
12 report describing possible steps that could be taken to
13 increase the likelihood that future RFPs for wind resources
14 reflect actual resource costs and market prices for wind
15 resources rather than published avoided cost rates for all
16 types of smaller QF projects. This analysis would also
17 include a review of the benefits and detriments to Idaho Power
18 of an ownership option for wind resources as a way to provide
19 pricing discipline with the RFP process.

20 Q. Historically, avoided cost rates specifically
21 targeted to individual QF generating technologies have not
22 been developed. Why should the Commission consider this
23 practice now?

1 interconnection requests in an effort to obtain the rates in
2 effect prior to the potential rescission of those rates and
3 adoption of newer, likely lower rates. A temporary suspension
4 of mandatory purchases of wind QF resources is imperative to
5 effectively address this unique issue and to avoid the adverse
6 impacts anticipated should the Company's system become deluged
7 with wind resources.

8 Q. Has the Commission authorized temporary
9 suspensions of the PURPA contract obligation in the past?

10 A. Yes, my legal counsel has advised me that such
11 a suspension is not without precedent. In IPUC Order No.
12 19348 issued in Case No. U-1500-156, the Commission, on its
13 own motion, imposed a one-year moratorium on purchases from
14 QFs located within the service area of non-investor-owned
15 utilities that purchase energy supplies from Bonneville Power
16 Administration. That moratorium was eventually lifted and
17 Idaho Power is the purchaser of energy from QF projects
18 located in the service area of Idaho municipalities and
19 electric co-operatives.

20 Q. Does the Company recommend that the suspension
21 apply to all wind agreements being negotiated between wind
22 developers and Idaho Power prior to the filing of Idaho
23 Power's Petition in this proceeding?

1 and analyses described in this testimony. Should the studies
2 be completed sooner, Idaho Power would be supportive of an
3 earlier end to the suspension period.

4 Q. Does that conclude your testimony?

5 A. Yes, it does.

**BEFORE THE
IDAHO PUBLIC UTILITIES COMMISSION**

**IDAHO POWER COMPANY
Case No. IPC-E-05-22**

**Exhibit No. 1
John R. Gale**

Arrow Rock Wind, Inc.

5203 South 11th East
Idaho Falls, Idaho 83404

Tel 208-522-8069
fax 208-522-8223

June 24, 2005

Idaho Public Utilities Commission
P. O. Box 83720
Boise, ID 83270-0074

Delivered via Facsimile: 208-334-3762

Subject: Arrow Rock Wind -- QF Contract with Idaho Power

Dear Commissioners:

This letter is written pursuant to a firm energy sales agreement, which we have negotiated with Idaho Power. This contract was negotiated over the past several months with Idaho Power. In the normal course of business Idaho Power forwarded a contract for our signature on June 16, 2005. I signed this contract on June 18, 2005 and returned it to Idaho Power via overnight mail, pursuant to Idaho Contract Power Administrator Randy Allphin's letter of June 16, 2005, a copy of which is attached. The Idaho Power letter states that Idaho Power would sign the contract and forward to PUC for approval.

On Thursday, June 23, 2005, Arrow Rock was informed by Randy Allphin that Idaho Power had filed a petition to suspend Idaho Power's requirement to sign PURPA wind contracts on June 17, 2005 and until such time as Idaho Power received direction from the PUC on this petition, Idaho Power would not be signing any wind PURPA contracts.

Generation projects require substantial planning periods and the resulting good faith negotiation for the contract supporting the project was fully concluded and agreed upon on June 14, 2005. Idaho Power negotiated the QF Agreement with Arrow Rock Wind in the normal course of business, which included a unique arrangement in which Arrow Rock, rather than Idaho Power would be responsible for firming and shaping the intermittent nature of the wind resource. The documentation clearly demonstrates that the Arrow Rock project was fully negotiated prior to the June 17th Petition from Idaho Power. The "mandatory contracting for purchases of wind QF resources" was completed prior to Idaho Power's Petition.

The Arrow Rock Wind structure demonstrates that firming of intermittent resource does not necessarily need to be the sole responsibility of host utility. Therefore the Arrow Rock resource does not maintain the reliability, ancillary service and integration characteristics that are the basis of Idaho Power's Petition. The firm, flat energy delivery to Idaho Power can easily be integrated into their system and provides substantial value. In fact, Idaho Power recognized that the June 17th Petition would be limited to "new contracts for purchases of energy from (intermittent) wind-powered QFs. The suspension (request) would not affect new contract with QFs utilizing other generating technologies." The firm, flat energy structure places the cost of integration upon Arrow Rock and as such mitigates the basis of concerns identified by Idaho Power. In our opinion the firm, flat Arrow Rock project is actually a superior resource to other generation technologies.

Specifically, the Arrow Rock Wind project has a very unique arrangement that elevates its energy deliveries to Idaho Power to a significantly more favorable energy product than the typical intermittent energy from a wind facility. As a value-added and innovative solution to the complex nature of intermittent resources, Arrow Rock Wind has, at its sole cost, secured firming and shaping services to provide a firm, flat delivery, as negotiated, to Idaho Power of 9 MW September through February and 7 MW June through August. Therefore, Idaho Power is not required to provide ancillary services, integration and reliability measures.

By this same letter, I request that Idaho Power sign this contract within the next seven to ten days and submit to the PUC for approval. Your assistance and insight at the PUC is sincerely appreciated.

Very truly yours,



Ted S. Sorenson, President

pc. Randy Allphin, Idaho Power

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 1st day of July, 2005, I served a true and correct copy of the Direct Testimony of John R. Gale upon the following named parties by the method indicated below, and addressed to the following:

Scott Woodbury	<u> x </u>	Hand Delivered
Deputy Attorney General	<u> </u>	U.S. Mail
Idaho Public Utilities Commission	<u> </u>	Overnight Mail
472 West Washington Street	<u> </u>	FAX
P.O. Box 83720		
Boise, ID 83720-0074		
Peter J. Richardson	<u> </u>	Hand Delivered
Richardson & O'Leary PLLC	<u> x </u>	U.S. Mail
515 N. 27th Street	<u> </u>	Overnight Mail
P.O. Box 7218	<u> </u>	FAX
Boise, ID 83707		
Mr. James T. Carkulis	<u> </u>	Hand Delivered
Exergy Development Group of Idaho LLC	<u> x </u>	U.S. Mail
1424 Dodge Avenue	<u> </u>	Overnight Mail
P.O. Box 5212	<u> </u>	FAX
Helena, MT 59604		
Richard L. Storro	<u> </u>	Hand Delivered
Director, Power Supply	<u> x </u>	U.S. Mail
Avista Corporation	<u> </u>	Overnight Mail
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Spokane, WA 99220-3727		
R. Blair Strong	<u> </u>	Hand Delivered
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MONICA B. MOEN