

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) **NOTICE OF PETITION**
TO ENTER INTO CONTRACTS TO)
PURCHASE ENERGY GENERATED BY) **NOTICE OF**
WIND-POWERED SMALL POWER) **INTERVENTION DEADLINE**
PRODUCTION FACILITIES) **NOTICE OF SCHEDULING**
)
) **NOTICE OF**
) **HEARING/ORAL ARGUMENT**
)
) **NOTICE OF**
) **PROCEDURAL CONFERENCE**

YOU ARE HEREBY NOTIFIED that on June 17, 2005, Idaho Power Company (Idaho Power; Company) filed a Petition with the Idaho Public Utilities Commission (Commission) requesting a temporary suspension of the Company's obligation under Sections 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). The requested suspension would not affect new contracts with QFs utilizing other generating technologies.

Idaho Power requests that the proposed 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, the Company contends, 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.

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BACKGROUND

Published Rates – PURPA QFs

Idaho Power notes that in accordance with Commission Order No. 29646 issued on December 1, 2004, the current average levelized “published rates” for 20-year QF contracts are approximately \$61 per MW hour. 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 notes that it currently has pending before the Commission applications for approval of additional wind-powered QF contracts in the amount of 21 MW. Additionally, the Company contends that it 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, the Company notes that it had less than 1 MW of QF wind-powered generation under contract.

Federal/State Tax Incentives

In addition to the avoided cost rates established by the Commission, the Company contends that wind-powered QF development has also been stimulated by multiple federal and state tax incentives. Just prior to the issuance of Order No. 29646, the federal government reinstated an expired production tax credit equal to \$18 per MW hour. Also present at the federal level are accelerated depreciation rules and other tax incentives. At the state level, the Idaho Legislature recently enacted a sales tax exemption to encourage the development of alternative generating resources. (*Idaho Code* § 63-3622 QQ).

2005 RFP – 200 MW of Wind-Powered Resource

On April 22, 2005, the Commission accepted Idaho Power’s 2004 Integrated Resource Plan (IRP). Reference Order No. 29762. In the IRP, the Company, in consultation with the Integrated Resource Plan Advisory Council, considered and evaluated a full range of resource options, including wind generation. Based on those consultations, the Company used an average price of \$43 MW hour for assessing the cost of wind resources. Using the \$43 per MW price assumption, the 2004 IRP called for 350 MW of wind-powered resource to be acquired in the near term. Idaho Power’s 2004 IRP described the Company’s intention to issue competitive requests for proposals (RFPs) for 200 MW of wind-powered resource in 2005 in its

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near-term action plan. The Company's 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.

In deciding to move forward with an RFP program to competitively acquire wind resources, the Company in its Petition states that it 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 the Company's hope that this strategy would moderate the total cost of wind energy acquired by averaging the higher cost of small QF wind projects acquired at the avoided cost rate with the presumably lower cost of wind acquired by competitive RFPs. The Company states that its expectations have not been realized.

Idaho Power reports it has recently reviewed the bid responses received in its 2005 RFP. The bids received, on average, propose purchase rates of approximately \$55 per MW hour. The Company 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 cites also recent announcements by other regional utilities of power purchase agreements with wind resource developers with substantially lower pricing structures. For example, it states that 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 MW hour. Reference Montana PSC Order No. 6633b issued March 31, 2005.

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, the Company states that it is likely that it will be required to reduce the amount of wind generation acquired through the 2005 RFP and also defer or perhaps eliminate its proposed 2008 RFP.

Without a temporary suspension of QF purchases, the Company speculates that unsuccessful wind developers bidding in the 2005 RFP may decide to reconfigure their wind projects to qualify for the PURPA mandatory purchase obligation at published QF rates. If that occurs, the Company contends that it will be presented with an unmanageable influx of intermittent generation. The Company believes that the only way to allow careful consideration of the issues raised by its Petition and to 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.

Intermittent Wind Resources – System Reliability

Idaho Power in its Petition contends that the potential addition of large amounts of QF wind generation could adversely affect system reliability. To assure system reliability, the Company states that 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 its 2004 IRP, the Company performed an analysis of the costs and risks associated with a resource portfolio consisting of 1,000 MW of wind. 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, the Company contends, adversely affects 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 Company states that neither the Commission nor Idaho Power had much experience with wind resources. The cost associated with the ancillary services needed to integrate intermittent wind resources onto the utility’s system was acknowledged but was not a factor included in avoided cost calculations.

Idaho Power contends that the time has come, 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 cost of acquiring ancillary services such as combustion turbine peaking capacity in conjunction with adding intermittent QF wind resources, the Company contends, must be considered in determining the costs the Company can avoid by purchasing QF wind resources. An analysis of this type, the Company states, has not been performed looking specifically at Idaho Power’s system. A thorough analysis, it states, will require time and considerable effort.

Wind-Specific Avoided Cost Rates

Idaho Power notes that the Company 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.

Proposed Suspension of Mandatory Purchase Obligation for Wind QFs

It is Idaho Power's belief that 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. Unless the Commission orders a temporary suspension of the mandatory contract obligation under PURPA, the Company 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.

During the proposed period of suspension, Idaho Power commits to 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 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 further 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.

Procedurally should the Commission determine it to be in the public interest to consider the issues raised by Idaho Power in its Petition, the Company suggests that the Commission first issue its order granting the temporary suspension. Secondly, the Company proposes that the Commission expeditiously convene a pre-hearing conference to define the issues to be addressed and to establish a schedule for processing and considering the issues raised by its Petition. The Company anticipates that the pre-hearing conference order would include a schedule for Idaho Power to present the reports it has committed to prepare.

YOU ARE FURTHER NOTIFIED that the Commission has reviewed the filings of record in Case No. IPC-E-05-22 and finds the Company's Petition alone provides insufficient basis to grant the temporary suspension requested. The Commission therefore finds it reasonable to establish the following procedure to develop a record for decision on the limited issue as to whether a temporary suspension of Idaho Power's PURPA obligation to enter into contracts to purchase energy generated by wind-powered small power production facilities can or should be granted. The scheduling that we set forth requires the Company to provide written testimony in support of its Petition and provides intervening parties the opportunity to submit testimony and written briefs. We accordingly adopt the following schedule:

July 1, 2005	Deadline for Idaho Power to file direct testimony and exhibits in support of Petition
July 15, 2005	Deadline for intervening parties to file direct testimony, exhibits and legal briefs on the limited issue of the requested temporary suspension
	Deadline for Idaho Power to file legal brief on the limited issue of the requested temporary suspension

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YOU ARE FURTHER NOTIFIED that all testimony and exhibits in Case No. IPC-E-05-22 must comport with the requirements of Rule 231 of the Commission's Rules of Procedure. Reference IDAPA 31.01.01.231.

YOU ARE FURTHER HEREBY NOTIFIED that **persons desiring to intervene** in this case with the purpose of becoming a party, i.e., to present evidence, to acquire rights of cross-examination, to participate in settlement or negotiation conferences, and to make and argue motions **must file a Petition to Intervene** with the Commission pursuant to Rules 72 and 73 of the Commission's Rules of Procedure, IDAPA 31.01.01.072-073. Persons desiring to acquire intervenor rights of participation must file a Petition to Intervene **on or before Friday, July 15, 2005**. Persons seeking intervenor status shall also provide the Commission Secretary with their electronic mail addresses to facilitate future communications in this matter.

YOU ARE FURTHER NOTIFIED that persons desiring to present their views without parties' rights of participation and cross-examination are not required to intervene and may present their comments without prior notification to the Commission or to other parties.

YOU ARE FURTHER NOTIFIED that discovery is available pursuant to the Commission's Rules of Procedure, IDAPA 31.01.01.221-234.

YOU ARE FURTHER NOTIFIED that **a public hearing and oral argument** on the narrow issue of the requested temporary suspension of Idaho Power's PURPA obligation to enter into contracts to purchase energy generated by wind-powered small power production facilities (the need for and appropriateness of such relief and related procedural and jurisdictional matters) and/or the Commission's power to suspend the PURPA avoided cost rate for wind facilities is scheduled to commence at **9:30 A.M., FRIDAY, JULY 22, 2005 AT THE COMMISSION'S HEARING ROOM, 472 WEST WASHINGTON STREET, BOISE, IDAHO.**

YOU ARE FURTHER NOTIFIED that immediately following hearing and oral argument on July 22, 2005, a **procedural conference** in Case No. IPC-E-05-22 will be held in the Commission Hearing Room for the purpose of reviewing case status, identifying issues and establishing further procedure.

YOU ARE FURTHER NOTIFIED that the Company's Petition in Case No. IPC-E-05-22 (together with supporting testimony) can be reviewed during regular business hours at the Commission's office in Boise, Idaho and at the principle business office of Idaho Power, 1221

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West Idaho Street, Boise, Idaho. The Petition is also available for public inspection on the Commission's Home Page at www.puc.idaho.gov under the "File Room" icon and "Electric Cases."

YOU ARE FURTHER NOTIFIED that all filings concerning Case No. IPC-E-05-22 should be mailed to the Commission and the Company at the addresses reflected below:

Commission Secretary
Idaho Public Utilities Commission
PO Box 83720
Boise, ID 83720-0074

Street Address for Express Mail:

472 W. Washington Street
Boise, ID 83702-5983

Barton L. Kline
Monica B. Moen
Idaho Power Company
PO Box 70
Boise, ID 83707-0070

E-mail: bkline@idahopower.com
mmoen@idahopower.com

and to all parties granted intervenor status (contact Commission Secretary for list). All filings should contain the case caption and case number shown on the first page of this document. Persons desiring to submit comments via e-mail may do so by accessing the Commission's home page located at www.puc.idaho.gov. Click the "Comments and Questions" icon, and complete the comment form, using the case number as it appears on the front of this document. These comments must also be sent to Idaho Power at the e-mail addresses listed above.

YOU ARE FURTHER NOTIFIED that the Commission has jurisdiction over Idaho Power Company, an electric utility, pursuant to the authority and power granted it under Title 61 of the Idaho Code and the Public Utility Regulatory Policies Act of 1978 (PURPA).

The Commission has the authority under PURPA and the implementing regulations of the Federal Energy Regulatory Commission (FERC) to set avoided costs, to order electric utilities to enter into fixed term obligations for the purchase of energy from qualified facilities, and to implement FERC rules.

YOU ARE FURTHER NOTIFIED that all proceedings in this matter will be conducted according to the Commission's Rules of Procedure, IDAPA 31.01.01.000 *et seq.*

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YOU ARE FURTHER NOTIFIED that all hearings and prehearing conferences in this matter will be held in facilities meeting the accessibility requirements of the Americans with Disabilities Act (ADA). Persons needing the help of a sign language interpreter or other assistance in order to participate in or to understand testimony and argument at a public hearing may ask the Commission to provide a sign language interpreter or other assistance at the hearing. The request for assistance must be received at least five (5) working days before the hearing by contacting the Commission Secretary at:

IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0338 (Telephone)
(208) 334-3762 (FAX)
E-Mail: secretary@puc.idaho.gov

DATED at Boise, Idaho this 30th day of June 2005.



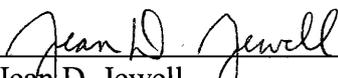
PAUL KJELLANDER, PRESIDENT



MARSHA H. SMITH, COMMISSIONER

Out of the Office on this Date
DENNIS S. HANSEN, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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