

## DECISION MEMORANDUM

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

**FROM:** SCOTT WOODBURY

**DATE:** JUNE 24, 2005

**SUBJECT:** CASE NO. IPC-E-05-22 (Idaho Power)  
PETITION FOR TEMPORARY SUSPENSION OF PURPA  
CONTRACT OBLIGATION FOR WIND QFS

### PETITION

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.

## **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 issued competitive requests for proposals (RFPs) for 200 MW of wind-powered resource in 2005 in its

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 believe 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.

### **COMMISSION DECISION**

Idaho Power requests a Commission order temporarily suspending the Company's obligation under Sections 201 and 210 of PURPA to enter into new contracts to purchase energy generated by wind powered QFs. Idaho Power further requests that a pre-hearing conference be convened to define issues and to establish a schedule for processing and considering the issues raised in its Petition. How does the Commission wish to proceed?

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Scott D. Woodbury

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