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IDAHO PUBLIC  
UTILITIES COMMISSION

September 27, 2007

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

RE: Arrow Rock Wind Project, Case No. IPC-E-05-24

Dear Ms. Jewell:

On October 5, 2005 in Order No. 29886, the Idaho Public Utilities Commission approved the Firm Energy Sales Agreement ("Agreement") between Idaho Power Company and Arrow Rock Wind Inc. ("Arrow Rock") for the sale of energy to Idaho Power Company from the proposed Arrow Rock Wind Project (the "Project") to be located near Billings, Montana. As proposed, the 19 MW Project would have been considered a Qualified Facility ("QF") under the Public Utility Regulatory Policies Act of 1978. The specified Scheduled Operation Date within this Agreement was December 1, 2005.

Within the Agreement, Paragraph 5.3 specified that the Seller must achieve an Operation Date within 10 months of the Scheduled Operation Date (October 1, 2006). Because Arrow Rock did not meet the Operation Date, on October 2, 2006 Idaho Power issued a default notice to the Project. As specified in the Agreement the Project had 60 days to cure the default.

On October 31, 2006, Arrow Rock indicated that the project was not under construction and would not be constructed in the future. Arrow Rock suggested the potential substitution of an alternate project, one located approximately 200 miles away using different equipment under different ownership. Idaho Power had numerous telephone conversations with the Project and advised the Project that this potential alternate project was not an acceptable cure to the October 1, 2006 default notice.

On November 29, 2006, Idaho Power notified the Project in writing that the previously provided information in regards to an alternate project was not acceptable and requested the Project provide additional information no later than December 4, 2006. Furthermore, if no new information was received Idaho Power would proceed with the termination of the Agreement. Idaho Power has not received any additional information and has informed the Project that Idaho Power would move forward with termination of the Agreement.

## Damages

The Agreement is silent in regards to any specific liquidated damages or damage calculations as a result of this termination. Idaho Power believes a reasonable damage calculation is to determine the additional energy cost, if any, that Idaho Power will incur as a result of this project's termination.

Idaho Power has calculated this energy value using the Integrated Resource Plan ("IRP") methodology (i.e., the AURORA Model) using the 2004 IRP and the 2006 IRP as bases. The Agreement contains non-levelized energy rates ranging from 52.69 Mills/Kwh to 81.25 Mills/Kwh. The approximate energy payments that would have been paid to this Project over the full 20-year term of the agreement would have been \$78.2 million (a net present value of approximately \$39.6 million). These energy payments were calculated by multiplying the monthly rates within the Agreement by the estimated monthly energy deliveries specified in the Agreement.

Using the 2004 IRP model Idaho Power has calculated the value of the same quantity of energy to be approximately \$65.4 million (a net present value of approximately \$33.1 million). These calculations indicate that the energy that would have been purchased from this project would have been approximately \$12.8 million (a net present value of approximately \$6.5 million) greater than the IRP estimated value of this energy.

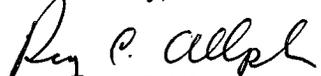
Using the 2006 IRP model Idaho Power has calculated the value of the same quantity of energy to be approximately \$70.1 million (a net present value of approx \$38.2 million). These calculations indicate that the energy that would have been purchased from this project would have been approximately \$8 million (a net present value of approximately \$1.4 million) greater than the IRP estimated value of this energy.

Based on these calculations, Idaho Power does not intend to seek any damages from Arrow Rock. Moreover, Idaho Power is unaware of any legal cause of action Arrow Rock may have against third parties related to their default.

As can be seen in the recent Hot Springs Wind Project, Bennett Creek Wind Project, and Alkali Wind Project Agreements (Case Nos. IPC-E-06-34, -35 and -36), Idaho Power is attempting to incorporate delay damage calculation provisions within future PURPA agreements to deter these types of contract terminations and also provide an actual damage calculation in the event a termination does occur prior to a project being constructed.

At this time Idaho Power Company has terminated the Agreement with the Arrow Rock Wind Project. If the Commission requires any further information or action from Idaho Power Company, please notify me (388-2614) or attorney Lisa Nordstrom (388-5825).

Sincerely,



Randy C Allphin  
Idaho Power Company

cc: Rick Sterling (IPUC)  
Scott Woodbury (IPUC)  
Lisa Nordstrom (IPCo)