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"Envisioning a sustainable future"

IDAHO PUBLIC
UTILITIES COMMISSION

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VIA EMAIL

July 10, 2006

President Paul Kjellander
Commissioner Dennis Hansen
Commissioner Marsha Smith

Idaho Public Utilities Commission
472 West Washington Street
PO Box 83720
Boise, ID 83720-0074

Re: Comments on IPC-E-05-34

Dear Commissioners:

First, let me apologize if it is inappropriate for me to reply to Idaho Power's comments in the subject case. I am only an interested party, not an intervener. I simply don't know the rules.

I would like to note that Idaho Power itself makes the strongest argument for allowing the Modified PacifiCorp Method. On page 8 of their Initial Comments they state, "Under the Schwendiman price floor concept, QFs can safely adjust their monthly energy delivery commitment amounts upward within the 90%/110% performance band with less risk." That's the point. The Pacificorp Method, at a minimum, will result in more accurate forecasts.

Idaho Power's statement implies that raising the forecast is bad for ratepayers. If that were true, developers would simply set their forecasts infinitely high. The incentives for accurate forecasts are the same, regardless of which 90/110 method is used. Developers must still balance the losses from over and under projections to maximize revenues. While the expected value (average) cost to the ratepayers may well be the same for either method, the variance and range (uncertainty) of possible outcomes are much lower with

the Modified PacifiCorp Method. Raising the forecasts is simply more accurate, not more costly.

As a developer, I can say that a project's revenues are maximized by lowering the projected output from what you believe to some theoretical optimum. The amount of this reduction is a function of total uncertainty. This includes both the uncertainty of the amount of energy delivered and the uncertainty of price for that delivery. By reducing the uncertainty of price, you will get a more accurate forecast.

It has already been recognized that, over the contract life, it is impossible to know whether the ratepayer will actually be better or worse off with any particular approach to the 90/110 Performance Band. Just as it is impossible to know whether they will actually be better or worse off with the underlying firm energy prices. We have to look forward, based on reasonable planning assumptions. My earlier comments in this case demonstrate that from a planning perspective, the Modified PacifiCorp Method is better for ratepayers.

While the actual effect on ratepayers can not be known until the end of the contract, we do know that increasing uncertainty will increase the cost of financing. Absent any clear differences in ratepayer impacts, the Commission should allow the Modified PacifiCorp Method, since it provides the lowest level of uncertainty for both parties.

One final comment on a different issue. The Staff's recommendation to spread the capacity prices over all three seasons is reasonable. They are probably correct that the existing seasonality factors already account for system reliability differences, which are typically the basis for spreading annual capacity costs.

Respectfully,

A handwritten signature in black ink, appearing to read 'Glenn Ikemoto', written in a cursive style.

Glenn Ikemoto
Principal