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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF)	
IDAHO POWER COMPANY FOR APPROVAL)	CASE NO. IPC-E-06-2
OF AN ENERGY SALES AGREEMENT FOR)	
THE SALE AND PURCHASE OF ELECTRIC)	
ENERGY BETWEEN IDAHO POWER)	
COMPANY AND CO-GEN CO, LLC.)	COMMENTS OF THE
_____)	COMMISSION STAFF

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Cecelia A. Gassner, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure issued in Order No. 29970 on February 8, 2006, submits the following comments.

BACKGROUND

On January 26, 2006, Idaho Power Company ("Idaho Power or Company") submitted for approval an Energy Sales Agreement for the sale and purchase of electric energy between Idaho Power Company and Co-Gen Co, LLC ("Co-Gen or Facility"). Co-Gen owns, operates and maintains a 10 MW nameplate capacity wood waste (biomass) generation unit that is located adjacent to the Prairie Wood Products Mill in Prairie City, Oregon, approximately 100 miles west of Ontario, Oregon (Facility). The Facility is located in the service area of the Oregon Trails

Electric Cooperative (OTEC) and in Idaho Power's electrical control area. Generation from the Facility is delivered to Idaho Power over the transmission lines of OTEC and the Bonneville Power Administration.

As represented, Co-Gen is a qualified small power production facility (QF) under the applicable provisions of the Public Utility Regulatory Policies Act of 1978 (PURPA). In accordance with PURPA, the Public Utility Commission of Oregon (OPUC) is the state regulatory agency with jurisdiction to implement PURPA in the state of Oregon and to determine Idaho Power's avoided costs in Oregon.

On December 29, 2005, Idaho Power and Co-Gen entered into an Energy Sales Agreement in conformance with the rates, terms and conditions established by the OPUC. Under the terms of the Agreement, Co-Gen elected to contract with Idaho Power for a one-year term, commencing January 1, 2006. Co-Gen further elected to receive payments from the Company computed in accordance with the Gas Market Method (Option 3) set out in Idaho Power's Oregon Tariff No. E-25, Schedule 85, dated August 11, 2005 or its successor schedule as approved by the OPUC.

ANALYSIS

Most of the terms and conditions of the Agreement between Idaho Power and Co-Gen Co LLC are nearly identical to those that are typically contained in similar agreements for projects located in Idaho and subject to the jurisdiction of the Idaho Public Utilities Commission. However, there are a few differences, primarily associated with rates. One of the primary differences between Idaho Power QF contracts in Oregon and Idaho is that avoided cost rates are computed for on-peak and off-peak hours in Oregon, while in Idaho there is no distinction between on-peak and off-peak generation. Another difference is that the energy and capacity components of the avoided cost rate are separately computed in Oregon. Under its Gas Market Method option, the energy payment component is based on monthly natural gas index prices.

Because of these differences, the rate that will be paid for purchases under the Agreement will be different than the rates that would otherwise be paid in Idaho. Consequently, Staff recommends that the amount approved for recovery in Idaho be equal to the actual amounts paid under the contract, but **not to exceed** the amount that would be paid if this were an Agreement within the jurisdiction of the Idaho Commission and subject to the avoided cost rates from Order No. 29646. For a one-year contract in 2006, the applicable rate from Order No. 29646 is 51.50

mills per kilowatt-hour. *Reference Appendix B from Order No. 29646, Idaho Avoided Cost Rates for Non-Fueled Projects, one-year contract length, on-line year 2006.*

Unlike in Idaho, it is Staff's understanding that in Oregon, PURPA contracts are not approved individually as they are submitted, but instead are held for consideration in the next general rate case. Contracts are scrutinized as part of the general rate case, and the Order emerging from the general rate case approves (or disapproves) cost recovery by the utility.

In OPUC Docket No. UM 1129, the OPUC recently authorized Idaho Power to adopt a "standard contract" with the rates, terms and conditions patterned closely after contracts approved for Idaho Power in Idaho. Because this Agreement is based on a "standard" contract, and because the rates to be paid are in accordance with an approved tariff in Oregon, Staff believes it would be highly unlikely that the contract would not be approved for cost recovery in a general rate case.

The OPUC stated the following in its Order:

While we agree with parties that QF power purchase contracts are unique among other power purchase contracts, we conclude that the unique characteristics of QF contracts already provide utilities with sufficient assurances, pursuant to the traditional regulatory compact that governs cost recovery, and that costs incurred under the contracts will be recovered. For example, in this Order, we have directed utilities to file QF power purchase standard contract forms. Those forms will be pre-approved for compliance with all standards set forth in this Order or still applicable prior orders. Although pre-approval of the standard contract form is not pre-approval of a utility's recovery of costs that are incurred under a particular standard contract, utilities are assured, to the extent a standard contract is entered into with a QF, that we have pre-approved the rates, terms and conditions of the agreement with the QF. ...we find utilities' lack of discretion regarding issues such as the location, timing, and cost effectiveness of QF power contracts favors the likelihood of a QF contract being deemed prudent. We determine that it is unnecessary and inappropriate to treat cost recovery of costs incurred under QF contracts any differently than cost recovery is handled for all other power purchase contracts. *Reference Oregon Public Utilities Commission Order No. 05-584; May 13, 2005.*

All of Idaho Power's PURPA contracts, whether the facilities are located inside or outside of Idaho, have historically been considered system resources. As system resources, contract costs are allocated system-wide in accordance with accepted jurisdictional allocations. Staff recommends that payments made for purchases under the Agreement be approved for recovery in Idaho as PURPA contract costs through the annual Power Cost Adjustment (PCA) mechanism,

subject to the customary jurisdictional allocation between Idaho and Oregon, and as discussed previously, subject to a cap of 51.50 mills per kilowatt-hour for recovery of the Idaho share.

In the event the OPUC ultimately does not approve the Agreement, Staff recommends that the Commission reserve the right to make an adjustment in the future to account for the difference in the amount allowed for cost recovery in Idaho as a PURPA contract passed through the PCA at 100 percent, and a discretionary power purchase subject to the 90/10 sharing under the PCA.

RECOMMENDATIONS

Staff recommends that payments made under the Agreement be allowed as prudently incurred expenses for ratemaking purposes, subject to the customary jurisdictional allocation between Idaho and Oregon. Staff further recommends that the amount of costs allowed for recovery in Idaho be capped at 51.50 mills per kilowatt-hour to reflect an amount that would be paid if this were an Idaho PURPA Agreement. Finally, Staff recommends that the Commission reserve the right to adjust the amount allowed for recovery in Idaho if the OPUC ultimately does not approve the contract in Idaho Power's next general rate case in Oregon.

Respectfully submitted this / ⁸⁷ day of March 2006.



Cecelia A. Gassner
Deputy Attorney General

Technical Staff: Rick Sterling

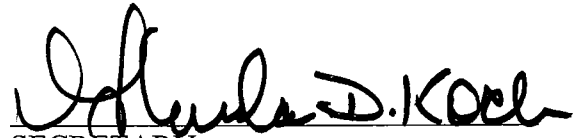
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 1ST DAY OF MARCH 2006,
SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE
NO. IPC-E-06-02, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE
FOLLOWING:

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