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IDAHO PUBLIC  
UTILITIES COMMISSION  
November 9, 2006

LISA D. NORDSTROM  
Attorney II

Jean D. Jewell, Secretary  
Idaho Public Utilities Commission  
472 West Washington Street  
P. O. Box 83720  
Boise, Idaho 83720-0074

Re: Case No. IPC-E-06-21  
*Cassia Gulch Wind Park LLC and Cassia Wind Farm LLC v. Idaho  
Power Company*

Dear Ms. Jewell:

Please find enclosed an original and seven (7) copies of Idaho Power's Reply to Comments of Exergy Development Group LLC in the above -referenced matter.

I would appreciate it if you would return a stamped copy of this transmittal letter in the enclosed self-addressed, stamped envelope.

Very truly yours,

Lisa D. Nordstrom

LDN:sh  
Enclosure

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Attorney for Idaho Power Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

CASSIA GULCH WIND PARK LLC AND	)	
CASSIA WIND FARM LLC	)	
	)	Case No.: IPC-E-06-21
Complainants	)	
v.	)	<b>IDAHO POWER'S REPLY TO</b>
	)	<b>COMMENTS OF EXERGY</b>
IDAHO POWER COMPANY	)	<b>DEVELOPMENT GROUP LLC</b>
	)	
Respondent	)	

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COMES NOW, Idaho Power Company ("Idaho Power") or ("the Company") and submits the following Reply Comments in response to the Comments filed by Exergy Development Group of Idaho LLC dated October 27, 2006.

**I. Exergy's Comments on Wind Resource Interruptibility are Premature**

On pages 2 and 3 of its Comments, Exergy argues that because wind generation is usually not available during periods of high barometric pressure, it is reasonable to assume that wind resources will not be generating at the time Idaho Power experiences its system peak and an N-1 condition is most like to occur. Exergy goes on to argue that as a result, wind Qualified Facilities ("QFs") will not contribute to N-1 conditions and wind QFs should be permitted to connect as interruptible resources. This fact driven argument is not ripe for consideration in the first phase of these proceedings. The first phase of this case is limited

to consideration of the legal and policy issues associated with Cassia Wind's proposal that the cost of transmission upgrades driven by QF interconnections should be rolled into Idaho Power's rate base and not funded by generation developers. If the Commission determines in Phase 1 that Cassia's proposed rolled-in approach is not appropriate, Exergy can make its interruptibility arguments in Phase 2.

In this first phase of the proceeding it is sufficient for Idaho Power to advise the Commission that it does not agree with Exergy's hypothesis concerning the impact of interruptible wind QF resources on Idaho Power and its customers. QF resources, including wind resources, are receiving purchase prices based on the cost of an avoided, firm, dispatchable generating resource. QF resources are take-and-pay, non-curtable resources. On that basis Idaho Power has correctly classified QF resources, including QF wind resources, as network resources. If wind resources are interruptible and cannot be considered network resources, the purchase price should reflect that status.

## **II. FERC Transmission Policy**

On pages 3 and 4 of its Comments, Exergy refers to several FERC decisions from the 1990s holding that all transmission customers share responsibility for the cost of transmission upgrades. As explained on pages 13-17 of Idaho Power's Answer filed October 27, 2006, these decisions have been subsequently reversed by Order 2003, et seq. and do not have precedential value. The FERC's current position is that transmission improvements required to integrate generation shall be funded by the interconnecting customer subject to refund so as to promote efficient investment decisions and protect native load from bearing the costs of interconnecting customers' network upgrades. (Order No. 2003-B at pp. 12-13 and ¶ 32).

### **III. Discriminatory Treatment Does Not Exist**

On page 5 of its Comments, Exergy argues that Idaho QF generators requesting wheeling service into Idaho Power's Oregon service territory could pay significantly less than those serving Boise load because transmission system upgrade costs would be rolled into Idaho Power's FERC jurisdictional transmission rates rather than being directly assigned. As discussed on pages 13-17 of Idaho Power's Answer and in the preceding paragraph, Exergy's argument is based on precedent that is no longer good law. Under Idaho Power's cumulative cost sharing proposal, QF generators selling all their output to Idaho Power will be treated in the same manner as those under FERC jurisdiction – i.e., generators prompting the need for network upgrades will be directly assigned their cost, subject to refund.

### **IV. Credits Based on Available Capacity**

If the Commission finds that QFs should be charged for upgrades and credited back their contributions over time, Exergy argues on page 6 of its Comments that the credits should be based on the capacity of the wind park and not the energy produced. To be clear, Idaho Power's cumulative cost sharing proposal offered credits based upon available capacity rather than energy. The Company believes this appropriate because if the plant is unable to perform or produce energy, it should not receive credit that month. Idaho Power proposed that the entire amount of the developer's contribution would be refunded over the life of the contract, and any remaining "credits" would be refunded at the end of the contract period. In this way, the generation developers would fully recoup their contributions without customers reimbursing the cost of transmission upgrades for non-performing generators.

Exergy also argues that generation developers that pay for transmission system upgrades should be compensated at the same rate Idaho Power earns on its own

investment in its transmission system. Thus, Exergy believes that any carrying charge on advances in aid of construction must be set at Idaho Power's return on equity rate to make the wind developers whole.

Although Idaho Power addressed this issue on page 26 of its Answer, it is worth noting that Idaho Power has proposed to pay the same interest rate it would pay to FERC jurisdictional customers under the FERC's rules. Even assuming that Idaho Power's return on equity rate was appropriate (and the Company does not concede that it is), the use of an interest rate different than that set by the FERC could create circumstances considered discriminatory under the logic expressed by Exergy on page 5 of its Comments.

Dated this 9<sup>th</sup> day of November 2006.

  
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Lisa D. Nordstrom  
Attorney for Idaho Power Company

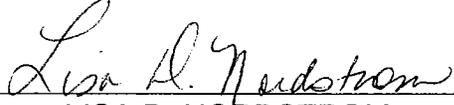
## CERTIFICATE OF MAILING

I HEREBY CERTIFY that on the 9<sup>th</sup> day of November 2006, I served a true and correct copy of the within and foregoing document upon the following named parties by the method indicated below, and addressed to the following:

Scott Woodbury Idaho Public Utilities Commission 472 W. Washington Street P.O. Box 83720 Boise, Idaho 83702	<input checked="" type="checkbox"/> Hand Delivered <input type="checkbox"/> U.S. Mail <input type="checkbox"/> Overnight Mail <input type="checkbox"/> FAX <input checked="" type="checkbox"/> Email: <a href="mailto:scott.woodbury@puc.idaho.gov">scott.woodbury@puc.idaho.gov</a>
Dean J. Miller McDevitt & Miller, LLP 420 W. Bannock Boise, Idaho 83702	<input type="checkbox"/> Hand Delivered <input checked="" type="checkbox"/> U.S. Mail <input type="checkbox"/> Overnight Mail <input type="checkbox"/> FAX <input checked="" type="checkbox"/> Email: <a href="mailto:dean@mcdevitt-miller.com">dean@mcdevitt-miller.com</a>
Peter J. Richardson Richardson & O'Leary 515 N. 27 <sup>th</sup> Street P.O. Box 7218 Boise, Idaho 83702	<input type="checkbox"/> Hand Delivered <input checked="" type="checkbox"/> U.S. Mail <input type="checkbox"/> Overnight Mail <input type="checkbox"/> FAX <input checked="" type="checkbox"/> Email: <a href="mailto:peter@richardsonandoleary.com">peter@richardsonandoleary.com</a>
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