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Salt Lake City, Utah 84111

October 27, 2006

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Idaho Public Utilities Commission
472 West Washington
Boise, ID 83702-5983

IDAHO PUBLIC
UTILITIES COMMISSION

Attention: Jean D. Jewell
Commission Secretary

Re: Comments of PacifiCorp in Case No. IPC-E-06-21

PacifiCorp (d.b.a. Rocky Mountain Power) hereby submits for filing an original and eight (8) copies of its Comments in Case No. IPC-E-06-21, Cassia Gulch Wind Park, LLC and Cassia Wind Farm, LLC.

Service of pleadings, exhibits, orders and other documents relating to this proceeding should be served on the following:

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It is respectfully requested that all formal correspondence and Staff requests regarding this material be addressed to:

By e-mail (preferred): datarequest@pacificorp.com

By regular mail: Data Request Response Center
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Portland, Oregon, 97232

By fax: (503) 813-6060

Sincerely,

D. Douglas Larson
Vice President, Regulation
Enclosures

cc: Service List

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IDAHO PUBLIC
UTILITIES COMMISSION

Attorney for PacifiCorp

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

CASSIA GULCH WIND PARK, LLC AND)	
CASSIA WIND FARM, LLC,)	CASE NO. IPC-E-06-21
)	
COMPLAINANTS,)	
)	COMMENTS OF
v.)	PACIFICORP
)	
IDAHO POWER COMPANY,)	
)	
RESPONDENT.)	
<hr/>		

COMES NOW PacifiCorp dba Rocky Mountain Power (“PacifiCorp” or the “Company”), by and through its attorney of record, and respectfully submits the following comments in response to the Idaho Public Utilities Commission’s (“Commission”) Notice of Complaint and Notice of Comment Deadlines issued in Order No. 30135 on September 27, 2006.

BACKGROUND

On September 13, 2006, Cassia Gulch Wind Park LLC and Cassia Wind Farm LLC (collectively referred to herein as “Cassia” or the “Projects”) filed a complaint

against Idaho Power Company (“Idaho Power”) with the Commission requesting a determination that, as a matter of policy, the cost responsibility for transmission system upgrades to meet Idaho Power’s N-1 contingency planning conditions, required to maintain standard reliability requirements under good utility practice, should not be assigned to Public Utility Regulatory Policies Act of 1978 (“PURPA”) qualifying facilities (“QF”) connecting to the system. Rather, Cassia contends the cost of system upgrades should be rolled into the utility’s plant-in-service rate base and recovered from rates and charges for utility service of native load and other transmission customers. The Projects are QFs within the meaning of PURPA and each has signed Commission-approved firm energy sales agreements with Idaho Power.

STATEMENT OF FACT

Although the Federal Energy Regulatory Commission (“FERC”) has jurisdiction with respect to interconnection for most generators, state commissions retain authority with respect to interconnection terms for QFs when the facility’s entire output is sold to a regulated utility. *See* Standardization of Generator Interconnection Agreements and Procedures, FERC Stats. & Regs. ¶ 31,146 (2003) (“Order No. 2003”); and Standardization of Small Generator Interconnection Agreements and Procedures, FERC Stats. & Regs. ¶ 31,180 (2005)(“Order No. 2006”).

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PACIFICORP COMMENTS

Ratepayer Neutrality

PacifiCorp and all electric utilities have an obligation to purchase net output from QF projects that satisfy the appropriate regulatory criteria. The fundamental premise of PURPA is based on the standard that ratepayers should remain indifferent to purchasing from a QF or from the utilities' next available resource. The Commission's primary responsibility regarding the purchase of power from a QF is to ensure that ratepayer neutrality is preserved and that utilities should not pay "more than the avoided costs for purchases" from QFs. 18 C.F.R. § 292.304(a)(2).

One of the fundamental mechanisms built into the PURPA regulatory regime is that in order to maintain this ratepayer neutrality, a QF developer is required to pay for all associated interconnection costs on a non-discriminatory basis that are required to interconnect the QF to the utility's system and maintain system reliability levels at pre-interconnection standards. 18 C.F.R. § 292.306(a). "Interconnection costs" are defined broadly to include "the reasonable costs of connection . . . transmission, safety provisions and administrative costs incurred by the electric utility directly related to the installation and maintenance of the physical facilities." 18 C.F.R. § 292.101(7). Importantly, the federal regulations promulgated by the FERC state that "to the extent such [interconnection] costs are in excess of the corresponding costs which the electric utility would have incurred if it had not engaged in interconnected operations [with the QF], but instead generated an equivalent amount of electric energy itself or purchased an equivalent amount of electric energy or capacity from other sources," the QF must pay those costs. *Id.*; 18 C.F.R. § 292.306(a).

In other words, if the utility incurs costs by purchasing from a QF that are in excess of the costs that a utility and its ratepayers would incur by virtue of obtaining the generation from another source, the QF must pay for those costs—that is the only way to maintain ratepayer neutrality. The all-in price paid by the utility to a QF should be set so that the cost of the QF to the utility, including any transmission-related costs, is not greater than other resource alternatives. The Commission should not require the utility and its customers to shoulder the cost of transmission upgrades to enhance the economics of any QF project—if it does, the ratepayers will pay for those costs in violation of the ratepayer indifference standard.

Commercial Considerations

PacifiCorp currently applies the PURPA requirements in interconnecting and serving QF generators. PacifiCorp follows a process and uses agreements that are virtually identical to the FERC interconnection process and agreements, respectively, contained in FERC Order No. 2003 and Order No. 2006. This process and set of agreements include feasibility, system impact, and facility studies to determine the required infrastructure needed to complete a proposed QF interconnection. In order for PacifiCorp to maintain a safe and reliable transmission system, the interconnecting QF is obligated to abide by the findings in the various study stages.

In following the PURPA and FERC-like rules, PacifiCorp maintains that it is the QF generator's responsibility to pay for all study costs, and all costs associated with permitting, engineering, procurement, and installation of infrastructure additions identified as required to maintain a safe and reliable system with the addition of the QF

generator being connected and integrated into the transmission system. PacifiCorp currently includes provisions in its QF agreements indicating that the developer is responsible for all costs associated with the QF interconnection. Any costs resulting from transmission constraints or transmission upgrades necessary to move the QF power from the point of receipt to a point of use for serving network load would be included in the interconnection costs to be born by the QF.

Like Idaho Power, PacifiCorp designates QFs as network resources to serve network load and PacifiCorp maintains the right to curtail QF deliveries for system reliability. In the event a resource is added and there is insufficient load, the added power that a QF delivered to PacifiCorp must be moved elsewhere to be useful to the system. This scenario is primarily expected to be the case in the off-peak time period, but also may occur with the addition of numerous or large QF projects.

In the case where the QF locates in a load pocket or cannot be fully integrated into PacifiCorp's system, the Company has the following options: 1) curtail QF generation if it exceeds load; 2) acquire transmission to move generation to serve network load; or 3) upgrade the transmission system to get generation to load. Under options 2 and 3, above, the QF is responsible for the cost of acquiring incremental transmission or upgrading the transmission system. If there is inadequate transmission capacity to move the power elsewhere in the system, the Company has the option of backing down use of its own low-cost resources to serve load in the area. Under this scenario, the avoided cost the QF receives should be adjusted downward to reflect the Company's obligation to accept the QF's higher cost power and back down a lower cost resource. However, if there are not

Company resources to curtail, the Company may ultimately be faced with not being able to accept QF power.

While PacifiCorp recognizes that locational transmission constraints and the need for transmission upgrades should not prevent project development, the incremental cost reflecting the constraint or upgrade should be born by the developer and not the ratepayer. Analysis of transmission system constraints and the cost of options for dealing with those constraints should be made available to QF project developers as part of the QF pricing and contract process so that appropriate adjustments can be made. If developers are not responsible for such costs, their incentive to make efficient project siting decisions would largely be lost. For example, a QF would simply choose the least expensive location to site its project, without regard to the purchasing utilities' transmission system. As a consequence, retail customers would shoulder the increase in cost for transmission infrastructure and Company resources that would otherwise be engaged in system planning and investment would be diverted to facilitate project siting in sub-optimal locations from a system perspective.

To illustrate, PacifiCorp has processed interconnection requests for eleven potential wind generation projects of various sizes through its interconnection queue over the past three years. These customers formally applied for interconnection to PacifiCorp's system and PacifiCorp conducted studies to define the interconnection and reliability requirements for five of the proposed projects (queue positions Nos. 32, 33, 38, 41, and 46). These eleven potential projects have all dropped their requests due to the high cost of transmission infrastructure required to reliably deliver their energy to loads. Even though many of the eleven requests exceeded the maximum size for qualification as

a QF, if the Cassia proposal had been in place over the past three years, it is highly likely that these projects would have been built with retail customers required to fund the necessary upgrades through significantly increased rates. PacifiCorp's transmission upgrade costs for the five projects for which PacifiCorp conducted studies were estimated to total \$571,956,000. The impact of implementing the Cassia proposal would have a profound impact on retail customers and their rates.

Discrimination

The requirement to pay for upgrade costs is applied equally to all new resources, regardless of fuel used, including wind generators. All resources, regardless of fuel type, are subject to location-specific costs that are factored into an economic analysis for a particular project. For example, the economic analysis of a coal plant is affected by altitude and its proximity to coal resources and rail transportation, among other factors. All proposed resources are considered in a public queuing process. In PacifiCorp's service territory the queue is posted on OASIS. The queue process serves to establish the first applicant's claim over subsequent applicants to available capacity on PacifiCorp's infrastructure. Importantly, new resources cannot take away capacity (or reliability or power quality) from any existing customers relying on that segment of PacifiCorp's infrastructure. In essence, the queue is an orderly process for reserving unused capacity on finite elements of the Company's distribution and transmission systems. In cases where there is no remaining capacity, the proposed QF resource is responsible for all costs to add new capacity to serve the output of the generator to the appropriate load.

Assignment of Cost

Other state utility commissions have supported the position that QF developers are responsible for costs associated with interconnecting to utilities' systems. In Order No. R-509, Docket No. A030832, the Washington Utilities and Transportation Commission stated that all costs associated with the interconnection of a QF generator are to be born by the QF generator customer. Utah schedule 38 states "Consistent with PURPA, the owner is responsible for all interconnection costs assessed by the Company on a non discriminatory basis." In Oregon, OAR 860-029-0060, states "Any interconnection costs shall be the responsibility of the owner or operator of the qualifying facility." PacifiCorp believes that all costs resulting from interconnecting and integrating QF resources must be taken into account and appropriate adjustments made to the avoided cost rate in order to maintain ratepayer neutrality.

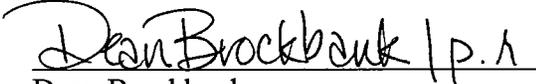
If all incremental costs that arise due to interconnecting and integrating a QF project onto the Company's system are not paid for by the QF, the Company will experience significant upward pressure on rates charged to its retail customers. In addition, due to lag inherent in the regulatory system, a transfer of wealth would occur between the Company's shareholders and those of the QF developer until such costs could be reflected in retail rates.

CONCLUSION

PacifiCorp respectfully requests that the Commission require QFs to pay for all interconnection and system upgrade costs associated with their respective projects. All

communications regarding these comments should be directed to Brian Dickman at (801)
220-4975.

Respectfully submitted this 27th day of October, 2006.



Dean Brockbank
Attorney for PacifiCorp

PROOF OF SERVICE

I hereby certify that on this 27th day of October 2006 I caused to be served, via E-mail and U.S. mail, a true and correct copy of the foregoing COMMENTS OF PACIFICORP in Case No. IPC-E-06-21 to the following parties as shown:

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