

BEFORE THE

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IDAHO PUBLIC UTILITIES COMMISSION
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IN THE MATTER OF THE APPLICATION OF)
IDAHO POWER COMPANY FOR APPROVAL)
OF A POWER PURCHASE AGREEMENT WITH)
TELOCASET WIND POWER PARTNERS, LLC)
AND TO INCLUDE THE ASSOCIATED)
EXPENSES IN THE COMPANY'S ANNUAL)
POWER COST ADJUSTMENT.)

CASE NO. IPC-E-06-31

COMMENTS OF THE COMMISSION STAFF

IDAHO PUBLIC UTILITIES COMMISSION

FEBRUARY 22, 2007

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION OF)
IDAHO POWER COMPANY FOR APPROVAL) CASE NO. IPC-E-06-31
OF A POWER PURCHASE AGREEMENT WITH)
TELOCASET WIND POWER PARTNERS, LLC)
AND TO INCLUDE THE ASSOCIATED) COMMENTS OF THE
EXPENSES IN THE COMPANY'S ANNUAL) COMMISSION STAFF
POWER COST ADJUSTMENT.)
_____)**

The Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Donovan E. Walker, Deputy Attorney General, in response to Order No. 30230, the Notice of Modified Procedure and Notice of Comment Deadline issued on January 26, 2007, respectfully submits the following comments.

BACKGROUND

On December 15, 2006, Idaho Power Company (Idaho Power; Company) filed an Application seeking approval of a Power Purchase Agreement (PPA; Agreement) with Telocaset Wind Power Partners, LLC (Telocaset). Idaho Power asked that the expenses associated with the purchase of capacity and energy from the PPA be included in the Company's annual Power Cost Adjustment (PCA).

This PPA is the result of Idaho Power's Request for Proposals (RFP) for 200 MW of wind-powered generation that originated with the Company's 2004 Integrated Resource Plan (IRP). The Company issued an RFP for 200 MW of wind-powered generation on January 13, 2005. In September 2005, the RFP was revised to ask for 100 MW instead of the 200 MW level, because of the quantity of wind the Company anticipated receiving from PURPA qualifying facilities (QFs). In June 2006, Telocaset Wind Power Partners of Houston, Texas was selected as the preferred bidder of the 2005 Wind RFP process.

The PPA guarantees an annual output of 196,000 MWh and has a planned capacity of 100.65 MW. The term of the PPA is 20 years, with an option for Idaho Power to extend the term of the Agreement an additional 10 years. If Telocaset should wish to sell the facility, the PPA provides Idaho Power with a first right of refusal. The guaranteed operation date for the facility is March 31, 2008.

ANALYSIS

Need for Wind Power

Idaho Power identified a need for wind power in its 2004 Integrated Resource Plan (IRP). Specifically, the 2004 IRP called for RFPs to be issued for 200 MW of wind-powered generation during the fall of 2004, and for an additional 150 MW in 2008. Wind was a significant part of the new resource portfolio that also included 100 MW of geothermal generation, 500 MW of coal-fired generation, 48 MW of combined heat and power at customer facilities, 62 MW of distributed generation or market purchases, and 124 MW of demand response and energy efficiency programs. In addition, the portfolio included 88 MW of simple-cycle gas-fired generation, which ultimately was filled by the 170 MW Evander Andrews plant recently approved by the Commission.

Idaho Power's need for new generating resources was thoroughly debated recently in Case No. IPC-E-06-09. The debate centered on whether the proposed Evander Andrews plant was needed, whether a 170 MW plant should be pursued when only an 88 MW need was identified in the Company's IRP, and whether there were other resource alternatives that should be pursued instead. Although the Industrial Customers of Idaho Power disputed the need for the proposed new capacity and maintained that other DSM and generation alternatives were preferable, the Commission ruled that the need for future power to meet the projected peak loads of Idaho Power was supported by substantial and competent evidence. Furthermore, the Commission noted in its order that the Industrial Customers' argument was not so much with the forecast of possible

peak deficiencies, but with Idaho Power's solution for addressing peak loads. See Order No. 30201.

Unlike the need for peaking generation filled by the Evander Andrews plant, wind is primarily intended to meet Idaho Power's need for energy. However, just as the 2004 IRP demonstrated a need for capacity, Staff believes it also convincingly demonstrates a need for new energy resources. More importantly, Idaho Power's 2006 IRP, which was filed on September 24, 2006 and reflects more up-to-date analysis, supports the acquisition of new energy resources as well. In the 2006 IRP, summer monthly energy deficits begin in 2009. By 2015, energy deficits are expected to occur in ten months of the year absent the addition of new resources. The preferred portfolio in the Company's 2006 IRP maintains the quantity and timing of new wind resources as was called for in the 2004 IRP, except that the 2006 IRP recognizes that at least 100 MW of wind will come as PURPA QFs rather than through RFPs. The 2006 IRP also identifies other resource alternatives including conservation, load management, geothermal, coal-fired generation, nuclear, combined heat and power, and new transmission projects that will provide access to market resources.

Request For Proposals/Overview of Process

Prior to the issuance of the RFP, Idaho Power assembled an evaluation team. The team consisted of five Company employees, one outside environmental advocate, and an independent consultant. This group began by identifying specific attributes the Company would require to meet the needs specified in the IRP. Those attributes were documented in the RFP. Based on those attributes, an evaluation manual was prepared and a scoring system developed for the purposes of evaluating proposals.

On January 13, 2005, Idaho Power issued the RFP to purchase energy from wind-powered generation resources located inside or near the Company's service territory (2005 Wind RFP). The RFP sought approximately 200 MW of nameplate generation. Bidders were required to offer a minimum of 30 MW of nameplate energy in their proposals.

Bids

This section of Staff's comments contains confidential information subject to protective agreement.

Stage 1 Bid Evaluation

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Reduction in RFP from 200 MW to 100 MW

Soon after a short list was developed, Idaho Power filed a Petition (Case No. IPC-E-05-22) requesting a temporary suspension of Idaho Power's obligation under PURPA to enter into new contracts to purchase energy generated by qualifying wind-powered small power production facilities (QFs or Qualifying Facilities). On August 4, 2005, the Commission issued Interlocutory Order 29839 reducing the published avoided cost rate eligibility cap for non-firm QF wind projects to 100 kW, requiring individual negotiation for larger wind QFs and establishing criteria for determining whether some QFs larger than 100 kW should be "grandfathered" to receive the published avoided cost rate.

While Case No. IPC-E-05-22 was pending and the various "grandfathering" requests were being evaluated, the Company postponed further consideration of the short-listed bids received in

response to the 2005 Wind RFP until late September 2005. In September 2005, Idaho Power advised the short-listed bidders that the Company intended to resume the 2005 Wind RFP process and requested that those bidders submit a renewed proposal for 100 MW of nameplate capacity. The amount was reduced from the previous 200 MW level because of the quantity of wind the Company anticipated receiving from Qualifying Facilities under PURPA. The Company also directed the short-listed bidders to obtain interconnection costs for each of the projects.

Staff believes that the Company's decision to reduce the RFP to 100 MW was appropriate. Moreover, Staff views the decision as further evidence of Idaho Power's efforts to just meet its forecasted energy needs, without overbuilding or acquiring too much.

Short List Bid Evaluation

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Staff believes that price should always be the most important criteria in any RFP evaluation. Thus, Staff would have preferred that price be more heavily weighted. In addition, in the case of wind projects, Staff believes that quality wind data should be a prerequisite in order for a proposal to be considered at all. Assuming the wind data meet minimum criteria with regard to the period of record and methods of analysis, then scoring based on the quantity and timing of wind resources is appropriate, at least to the extent it is not already being accounted for in the generation amounts used in the cost analysis. Nevertheless, despite some reservations, Staff believes that the short list evaluation methodology was reasonable and fair.

Short List Bid Evaluation Results

Horizon Wind Energy's Telocaset project scored the highest in all three major scoring categories.

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A summary of the scoring results for each of the short-listed bids is included as Attachment 2. **This section of Staff's comments contains confidential information subject to protective agreement.**

A summary of the non-price scores for each of the short-listed bids is included as Attachment 3. **This section of Staff's comments contains confidential information subject to protective agreement.**

Project Description

The Telocaset project, which has been named the Elkhorn Wind Power Project, will be located on a 23,900-acre site in Union County, Oregon. The project will interconnect to the Idaho Power Company transmission system at a point approximately three miles northeast of North Powder, Oregon on the Company's Brownlee-Quartz-LaGrande 230 kV transmission line. The project will consist of 61 Vestas V82 wind turbine generators with a maximum installed nameplate capacity of 104 MW, and an expected capacity of 100.65 MW. The project's guaranteed operation date is March 21, 2008; however, Telocaset intends to attain an in-service date of December 31, 2007.

Contract Terms and Conditions

The PPA with Telocaset guarantees an output of 196,000 MWh and a planned capacity of 100.65 MW. The term of the PPA is 20 years beginning with the operation date. Idaho Power has an option to extend the term of the agreement an additional ten years. Should Telocaset choose to sell its facility, the PPA provides that Telocaset first offer to sell its facility to Idaho Power.

The purchase price will start at a base rate of \$48/MWh in 2007, with an annual escalation adjustment of three percent. The rate will also be subject to the same seasonal adjustment factors as are applied to PURPA contracts—generation in the springtime months of March, April and May is priced at 73.5 percent of the contract rate, generation in the summer months of July and August and the winter months of November and December is priced at 120 percent of the contract rate, and generation in all other months is priced at 100 percent of the contract rate. Based on the expected generation of the project over the 20-year contract term, the PPA has a present value of approximately \$200 million. No payment is required by the Company for energy deliveries that exceed the maximum contract amounts.

The PPA allows Idaho Power an option to purchase the project. Should Telocaset decide to sell the facility assets comprised of all, or a substantial portion of the project, Telocaset must first offer to sell the assets to Idaho Power. The PPA also allows Idaho Power to extend the term of the agreement an additional 10 years if it chooses, at terms that would be negotiated between the parties. Staff believes that both of these provisions add value to the Agreement.

Price Assessment

As stated above, the purchase price in the Agreement begins at \$48/MWh in 2007 and escalates at three percent annually. However, because the project's scheduled operation date is not until December 1, 2007 and its guaranteed operation date is not until March 31, 2008, Staff believes it is unlikely that any energy will be sold at the first year price of \$48/ MWh. A more likely first year rate is \$49.44/MWh beginning in 2008. When levelized over the 20-year contract term, the contract rate is \$62.38 (year 2008 dollars). Under the terms of the Agreement, Idaho Power is not required to pay for anything else other than the energy delivered by the project. Furthermore, Idaho Power is only required to pay for energy it actually receives, i.e., there are no "take or pay" requirements in the contract.

One reasonable comparison to the purchase prices in the Agreement is the avoided cost rates paid to PURPA QFs. The 20-year levelized PURPA rate for a project online in 2008 is \$63.84. Therefore, on a levelized cost basis, the rates in the Agreement are approximately 2.3 percent below PURPA rates. Attachment 5 is a graph comparing the purchase prices in the Agreement to the current avoided cost rates for PURPA QFs.

While it is encouraging that the purchase prices in the Agreement are below PURPA avoided cost rates, Staff believes it is very important to recognize that price alone should not be the only factor considered. As will be discussed below, there are many other elements of the PPA that make it different from a PURPA QF contract. Staff firmly believes that all of the PPA's terms and conditions, including price, must be considered as a package in any comparison to other alternatives.

It is somewhat difficult to directly compare the cost of the PPA to alternatives other than PURPA contracts because there are no alternatives in which the prices are known with certainty for 20 years. For example, market purchases might be considered an alternative, and forward market prices can be readily obtained, but certainly not for durations anywhere close to 20 years. Prices from recently approved or built projects, such as Evander Andrews, are also poor comparisons because those plants are dispatchable peaking plants, not base load energy plants like this wind PPA. Furthermore, fuel costs for gas-fired plants are unknown in the future. Fuel costs comprise a substantial portion of PURPA avoided cost rates as well, but because they are assumed for the life of the contract, they provide a baseline against which other alternatives can be compared.

Staff believes that one of the best ways to judge the reasonableness of the price of a wind PPA is to compare it to the price assumptions used in the utility's IRP for similar resources. The price of the Telocaset PPA is very close to the cost of wind resources assumed in Idaho Power's 2006 IRP. The IRP process compares the assumed costs of various resources, and then subjects those resource alternatives to rigorous risk analysis including fuel price uncertainty. Because recent Idaho Power IRPs have consistently selected wind as part of the preferred portfolio of new resources, given reasonable cost assumptions and risk analysis, Staff is comfortable with Idaho Power purchasing wind resources at the prices in the Telocaset PPA.

Transmission

The project is located in eastern Oregon, and would deliver its energy to a point on the LaGrande-Brownlee 230 kV transmission line. Various transmission studies have been completed. Those studies indicated that relatively minor transmission system upgrades will be required for the Telocaset project. The estimated cost for transmission upgrades and interconnection of the project is \$3.6 million. Of that amount, \$2.3 million will be considered interconnection costs, which Telocaset will be required to pay without refund. The remaining \$1.3 million will be considered "Network Upgrades," which under FERC's Large Generator Interconnection rules is eligible for 100 percent refund.

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Final interconnection costs and transmission upgrade costs will be spelled out in a Large Generator Interconnection Agreement (LGIA), which is expected to be completed by February 28, 2007.

The transmission upgrades discussed above will provide Telocaset with firm transmission, but only for 66 MW of the project's capacity. Because the transmission capacity is firm, no curtailment of the first 66 MW of the project's output is expected due to congestion.

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Performance Provisions

The Agreement contains numerous provisions designed to protect Idaho Power in the event Telocaset is unable to perform in accordance with requirements of the PPA. Most of these provisions are discussed individually below. Total liability for any and all damages during the term of the PPA is capped at \$15 million. This cap appears to be based entirely on negotiations between the parties. It is difficult to judge the reasonableness of the cap amount because it is nearly impossible to envision the degree of damage Idaho Power might incur as a result of non-performance by Telocaset. As stated previously, the present value of the PPA over its lifetime is approximately \$200 million. However, if Telocaset defaulted completely, Idaho Power would certainly incur some damages, but the Company could eventually acquire replacement power or a different resource. There are no limits for damages attributable to willful breach of the PPA by the project.

Delivery Obligation Shortfall

Telocaset's guaranteed annual output under the PPA is 196,000 MWhs. The PPA includes damage provisions if the project fails to deliver its guaranteed annual output. If the project is unable to make up its delivery obligations to the Company during a three-year true-up period (including the year at issue), the project will pay Idaho Power an amount equal to the rate of

\$25/MWh, subject to a cap of \$500,000/year for the delivery obligation shortfall. Both the price to be paid for shortfalls and the cap of the project's liability for energy delivery shortfalls will be escalated at three percent per year.

Staff believes that this contract provision, while it may seem reasonable, actually provides very little protection to Idaho Power. First, the 196,000 MWh guaranteed annual output appears to be based on generation from only the 66 MW portion of the project with firm transmission.

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Although Telocaset may be unable to guarantee an annual output of more than 196,000 MWhs due to having only 66 MW of firm transmission capacity, it seems highly unlikely to Staff that the project's actual annual generation would ever be this low. Staff believes it would be reasonable to assume that the remaining 34 MW portion of the project will be able to deliver a significant amount of generation each year, despite only having non-firm transmission.

Second, the penalty amount of \$25 per MWh seems quite low. Idaho Power may be able to purchase replacement power at or below that price sometimes during the year, but market prices will likely exceed that price most of the time.

Wind Data Forecasting/90-110 Performance Band

To better enable Idaho Power to integrate the project's wind generation into the Company's resource supply mix, the Agreement requires Telocaset, at its own expense, to provide the Company with real-time access to the wind forecasting service used by the project, including forecasts of the energy to be delivered during the next hour, next day, and next week. Should the Telocaset project fail to provide timely and reliable wind forecast data, the PPA contains a provision that allows the Company to implement the same 90%-110% performance band provisions as have been included in typical PURPA wind contracts.

This PPA marks the first time a wind generator supplying electricity to Idaho Power will deliver detailed wind velocity and duration forecast data to the Company. Staff supports the wind data forecasting requirements contained in the Agreement. Staff believes that forecasting is important for large wind projects due to the intermittent nature of the resource. Accurate forecasting can help minimize integration costs. In a separate case filed recently by Idaho Power, the Company is proposing, among other things, to eliminate the 90%-110% performance band

provision for PURPA QFs, provided that QFs reimburse the Company for their share of the ongoing cost of the wind forecasting service. Reference Case No. IPC-E-07-03.

Delay Damages

Under the terms of the Agreement, Telocaset will be subject to delay damages of \$100/MW for each day the project does not become operational beyond the guaranteed in-service date of March 21, 2008. This delay damage provision is capped at \$1.8 million.

Staff believes that this damage provision is somewhat weak. If the entire project capacity is delayed, for example, the penalty would amount to about \$10,000 per day. Assuming a 34 percent capacity factor, the plant could generate approximately 816 MWhs per day. Dividing \$10,000 per day by 816 MWhs per day gives an equivalent penalty amount of \$12.25 per MWh. As long as Idaho Power could obtain replacement power for no more than \$12.25 above the contract rate (\$49.44 in 2008), it would be unharmed. Staff believes that replacement power could easily exceed this price, however.

Performance Assurances

Prior to the project's in-service date, Telocaset will provide a performance assurance of \$1 million. On or after the in-service date, Telocaset will maintain performance assurance of \$10 million. In addition, if damages such as those described above are incurred, the PPA includes security assurances that allow the Company to collect the calculated damages. The obligations of Telocaset will be secured by a guaranty issued by Goldman Sachs, Horizon Energy's parent company. Should the credit rating of Goldman Sachs fall below a predetermined level, Goldman Sachs will be required to post a liquid form of performance assurance.

The amounts of the performance assurances were negotiated between the parties. Once again, there is no precise way of measuring whether the amounts are sufficient. Nevertheless, Staff believes that the amounts are high enough to provide strong incentive for Telocaset to perform as required by the PPA.

Horizon Energy/Goldman Sachs Experience

Telocaset's parent company, Horizon Wind Energy, is an experienced wind developer. Horizon has developed more than 1,000 MWs of operating wind farms and currently owns and operates eight wind generation projects with generation capacity of 569 MWs. Horizon Wind

Energy's holding company, Goldman Sachs maintains credit ratings of A+ (Standard & Poor) and Aa3 (Moody's Investors Services). Staff considers both Horizon and Goldman Sachs to be desirable counterparties to a PPA.

Renewable Energy Credits

In accordance with the Agreement, Idaho Power will retain all renewable energy credits (RECs) or green energy tags from the project. In its 2006 IRP, the Company stated that it recognizes that the acquisition and retention of green tags is necessary to accurately fulfill the renewable energy component of Idaho Power's resource portfolio. The Company believes that green tags are necessary in order to assure customers that it has acquired the energy from renewable resources. Idaho Power also states that by retaining the green tags from the Telocaset project, it would stand prepared should future federal or state law impose renewable energy requirements on the Company.

Staff maintains that once a renewable energy project is built and operating, the environmental benefits created by the facility are realized by customers and nearby project residents whether green tags are sold or not. The sale of a green tag from an operating project creates no more environmental benefit than would otherwise exist if no tags were sold. Staff sees the proper role of green tags as increasing the revenue generation potential of a project to such an extent that it causes the project to be built when it otherwise would not be built. Unless there is a requirement for utilities to possess green tags, Staff believes it would be foolish not to sell them and flow the sales revenues back to customers. By selling the green tags, customers enjoy both the environmental benefits of the project and the green tag sales proceeds. Recognizing that Idaho Power might be required to possess green tags at some time in the future, however, Staff recommends that they be sold for now on a short-term basis only.

Ratemaking Treatment

The PPA provides for certain "bridge" financing to Telocaset by Idaho Power to cover Telocaset's cost exposure to acquire certain long lead-time items such as a transformer and certain engineering and design expenditures while the Commission is considering this Application. Idaho Power will establish a reserve account and fund the cost to enable Telocaset to proceed prior to IPUC approval of this Application. Staff understands that bridge financing is typically a lower

cost alternative for financing. Staff recommends that any expenses related to the “bridge” financing be considered for approval in a future rate proceeding.

Staff agrees with the proposed accounting treatment of the costs associated with the PPA. The Company proposes that the costs of the PPA be recovered in a manner similar to non-QF expenses, with 90% of variations captured through the Company’s PCA mechanism until the Company’s next general rate case, at which time the Company be allowed to include the costs of the PPA in base rates. Staff recommends that the Company keep track of the PPA as a separate line item in the PCA until it is included in base rates in the Company’s next general rate case.

Staff’s Overall Assessment of the Agreement

Many of the principal provisions of the PPA are similar to provisions contained in the Company’s existing PURPA contracts. The price in the Agreement, for example, is only slightly below PURPA avoided cost rates.

There are many key differences, however, between the PPA and a typical PURPA contract. First, PURPA contracts are considered firm energy agreements, implying that firm transmission capacity is available for the QFs entire output. Under the Telocaset Agreement, only 66 MW of the project’s 100 MW capacity has access to firm transmission capacity. Second, although typical PURPA contracts contain some performance requirements, they are not nearly as stringent as those contained in this PPA. The PPA contains online delay damages, guaranteed annual output requirements, and delivery obligation shortfall penalties. In addition, the Telocaset Agreement has performance assurances that are secured by Goldman Sachs guarantees. Finally, green tags are provided to Idaho Power at no additional cost under the PPA, whereas the project developer under PURPA contracts retains them.

As stated previously, Staff believes that judgment as to the reasonableness of the PPA must be based on the PPA in its entirety. Specific provisions in the PPA could have been stronger in Staff’s opinion, but we recognize that all provisions are negotiated as part of a package. On the whole, Staff believes that the PPA is more attractive than if the project had contracted with Idaho Power as a PURPA QF. If approved, Staff believes that the Telocaset Agreement will become a valuable piece of the Company’s resource portfolio.

RECOMMENDATION

Staff recommends that the Commission issue an order finding that the Power Purchase Agreement with Telocaset Wind Power Partners LLC is prudent and approving inclusion of the prudently incurred power purchase expenses associated with the Telocaset PPA in the Company's Power Cost Adjustment.

Respectfully submitted this *22nd* day of February 2007.



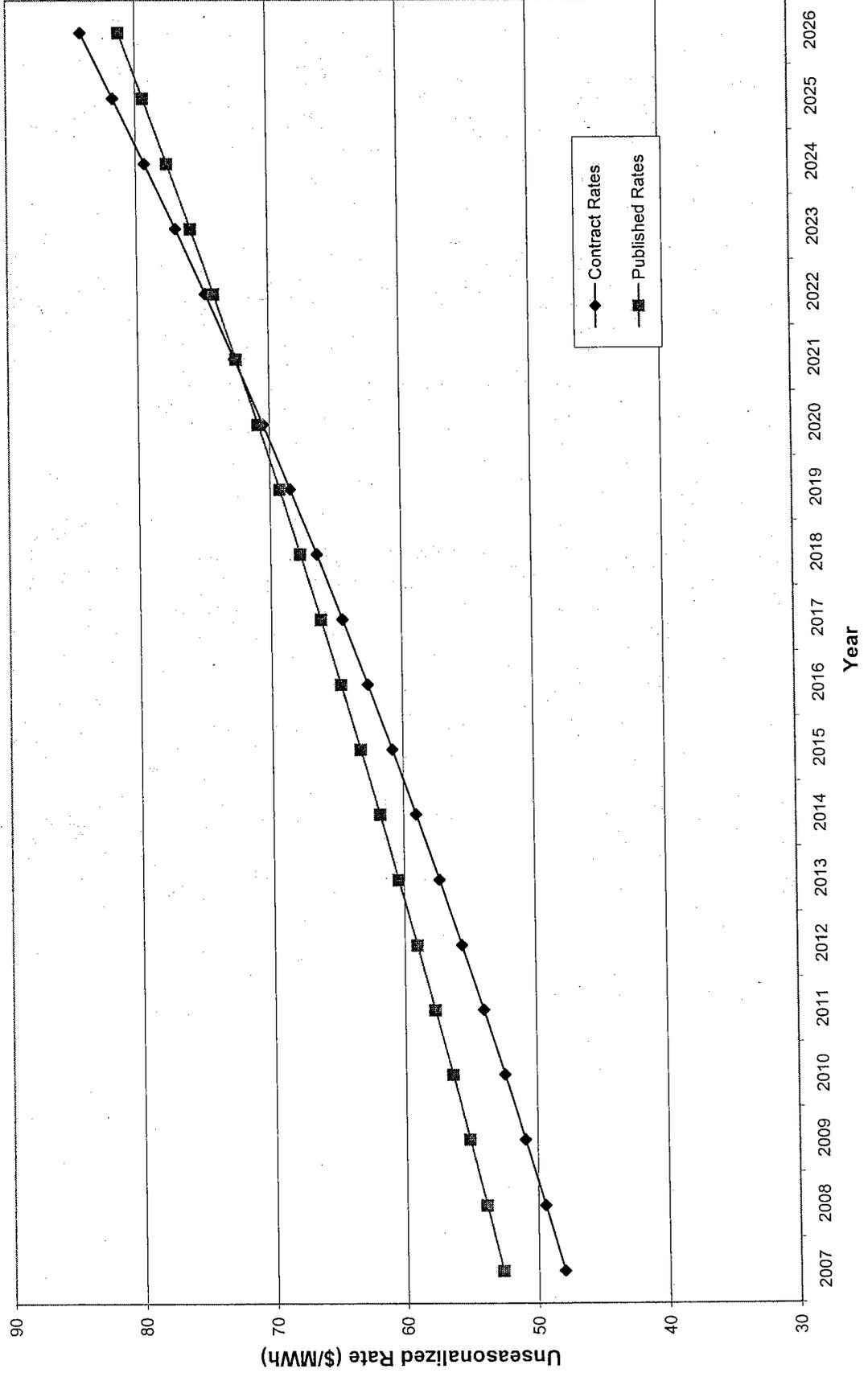
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**ATTACHMENTS 1 THROUGH 4
CONTAIN CONFIDENTIAL INFORMATION
SUBJECT TO PROTECTIVE AGREEMENT**

Telocaset Contract Rates vs. Published Avoided Cost Rates



CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 22ND DAY OF FEBRUARY 2007, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-06-31, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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