

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER REDFORD
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL**

FROM: DONOVAN E. WALKER

DATE: FEBRUARY 23, 2007

**SUBJECT: IDAHO POWER'S APPLICATION FOR APPROVAL OF A POWER
PURCHASE AGREEMENT WITH TELOCASET WIND POWER
PARTNERS, LLC – CASE NO. IPC-E-06-31**

On December 15, 2006, Idaho Power Company (Idaho Power, Company) filed an Application seeking approval of a Power Purchase Agreement (PPA) 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).

On December 27, 2006, the Commission issued a Notice of Application and set a deadline of January 10, 2007, for interested parties to petition for intervention. Order No. 30209. No petitions for intervention were filed. On January 26, 2007, the Commission issued a Notice of Modified Procedure, setting a comment/protest deadline of February 22, 2007. Order No. 30230. Comments were filed by Commission Staff, the Idaho Farm Energy Association, the NW Energy Coalition and the Renewable Northwest Project, and one member of the public.

THE APPLICATION

Idaho Power seeks approval of its PPA with Telocaset, and inclusion of the associated expenses for the purchase of capacity and energy in the Company's annual Power Cost Adjustment (PCA). This PPA is the result of Idaho Power's Request for Proposals for 200 MW of wind-powered generation that originated with the Company's 2004 Integrated Resource Plan (IRP). Application at 2. The Company issued an RFP for 200 MW of wind-powered generation on January 13, 2005. *Id.* In September 2005, the RFP was revised to ask for 100

MW, instead of the 200 MW, because of the quantity of wind the Company anticipated receiving from PURPA qualifying facilities (QFs). Application at 3. In June 2006, Telocaset Wind Power Partners of Houston, Texas was selected as the preferred bidder of the 2005 Wind RFP process. *Id.*

Idaho Power and Telocaset concluded negotiations of the PPA in December 2006. Application at 4. The PPA guarantees an output of 196,000 MWh (annually) has a planned capacity of 100.65 MW. *Id.* 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. *Id.* If Telocaset should wish to sell the facility, the PPA provides Idaho Power with a first right of refusal. *Id.*

The wind project is located in eastern Oregon, and would deliver its energy to a point on the LaGrande-Brownlee 230 kV transmission line. Application at 4. The project is expected to have an output profile with higher output coinciding with the summer and winter peak demand. *Id.*

Prices under the PPA adjust seasonally and start at a base rate of \$48.00/MWh with an annual escalation rate of 3%. Application at 4. No payment is required for energy deliveries of the maximum contract amount and Idaho Power will retain all green energy tags from the project. *Id.* The PPA also provides that Telocaset will deliver detailed forecasting data, including wind velocity and duration, to Idaho Power. *Id.* The data will include real time access to the forecasting service used by the project, including forecasts of energy to be delivered during the next hour, next day, and next week. *Id.* This is expected to assist Idaho Power when integrating the wind generation into the Company's resource supply mix. Application at 5.

The PPA contains provisions, similar to the 90%/110% delivery provisions contained in Idaho Power's QF contracts, which would provide for damages and caps. Application at 5. The PPA also contains penalties should the project fail to deliver the guaranteed annual output of 196,000 MWh. *Id.* Additionally, the obligations of the project will be secured by a guaranty issued by Goldman Sachs. *Id.* 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. *Id.* The obligations of Idaho Power will be secured by Idaho Power's balance sheet. *Id.* The PPA also provided 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. Application at 5-6. Idaho Power states it will establish a reserve account and fund the cost to enable Telocaset to proceed prior to approval of the Application. *Id.* at 6.

Idaho Power requests that the Commission issue an Order finding that the PPA is prudent and approving inclusion of the prudently incurred power purchase expenses associated with the PPA in the Company's annual PCA. *Id.* The Company requested that its Application be processed by Modified Procedure. *Id.*

COMMENTS

1. ***Northwest Energy Coalition and Renewable Northwest Project.*** Joint comments were filed by the NW Energy Coalition (NVEC) and the Renewable Northwest Project (RNP). The comments supported approval of the PPA and requested that the docket be processed in an expedited fashion. NVEC and RNP stated that the PPA will be beneficial to both utility ratepayers and the furtherance of renewable energy in Idaho Power's portfolio. They stated that the price of \$48/MWh and its 3% escalation rate will make this resource one of the most cost-effective of all generation resources identified in Idaho Power's 2006 IRP. NVEC and RNP also stated that they were "enthusiastic" about provisions in the PPA that commit Telocaset to provide Idaho Power with detailed, real-time wind forecasting data. Their comments stated that the combination of enhanced forecasting along with the geographic diversity offered by this project could only serve to make the number of pending Idaho based wind projects more attractive to Idaho Power.

2. ***Idaho Farm Energy Association.*** The Idaho Farm Energy Association stated that the Horizon contract is a wise investment for the ratepayers, and that it supports this project and further development of wind energy along with other renewables for the benefit of the citizens of Idaho and the ratepayers. However, the organization also stated that the difference in price in the PPA as compared to PURPA rates was entirely offset by the difference in the 90/110 mechanisms between the two contracts, and that the Horizon project and PURPA projects have essentially the same cost to the ratepayer. It stated that this project represents a \$160 million investment in a rural Oregon county while the energy will be paid for by Idaho customers. Idaho Farm Energy Association states that a project of this size typically generates over \$1 million per year in local economic benefits, and that those benefits are desperately needed in rural Idaho.

3. ***Larry Zirker.*** Mr. Zirker filed comments stating that this Agreement is "very bad for Idaho." He stated that approving the 100 MW Agreement would essentially be stopping four

small QFs from being built. He states that it would reduce the tax base on \$120,000,000 of small wind farms from supporting Idaho, and that many good paying jobs would be lost. He also commented that this would take 100 MW from the queue that Idaho Power will allow according to its IRP.

4. *Commission Staff.* Staff filed comments recommending that the Commission: (1) find the PPA to be prudent; and (2) approve inclusion of the prudently incurred power purchase expenses in the Company's PCA. Staff's comments reviewed the need for power, the request for proposals (RFP) process, the PPA terms and conditions (including a price assessment and transmission costs), as well as the requested ratemaking treatment of the expenses associated with the contract.

Staff concluded that a need for wind generation was demonstrated by both the 2004 and 2006 IRPs. Idaho Power's need for new generating resources was recently debated in Case No. IPC-E-06-09 seeking Commission approval for the construction of the Evander Andrews, 170 MW gas-fired peaking plant. Staff points out that the Commission found in that case that the need for future power to meet the projected peak loads of Idaho Power was supported by substantial and competent evidence. Staff states that unlike the need for peaking generation filled by the Evander Andrews plant, that wind generation is primarily intended to meet the Company's need for energy. However, just as the IRP's demonstrated a need for capacity, they also convincingly demonstrate a need for new energy resources.

Staff reviewed the 2005 Wind RFP process and concludes that the methodology used as well as the process was fair, reasonable, and resulted in the best proposal being selected. Horizon Wind Energy's Telocaset project scored the highest in all three major scoring categories, and was clearly the best proposal submitted in the RFP process.

In its price assessment Staff reports that the price in the PPA begins at \$48/MWh in 2007 and escalates 3% annually. The levelized cost of the 20-year contract is estimated at \$62.38/MWh. Idaho Power is not required to pay for anything else other than the energy delivered. Staff states that the price compares favorably to the avoided cost rates for PURPA QFs. The price from the PPA is approximately 2.3% below PURPA rates, when compared to a 20-year levelized PURPA rate, which is \$63.84. Staff cautions that, while it is encouraging that the purchase price in the PPA is below PURPA rates, that it is very important to recognize that

price alone should not be the only factor considered, and that the Telocaset project and the PPA is different from a PURPA QF and a PURPA contract.

The estimated cost for the necessary 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, and the remaining \$1.3 million will be considered "network upgrades" which under FERC's Large Generator Interconnection rules is eligible for 100 percent refund. This provides firm transmission for 66 MW of the projects 100 MW capacity. The remaining 34 MW is interruptible and subject to possible curtailment by Idaho Power according to the terms of the PPA.

Staff discusses many of the numerous provisions designed to protect Idaho Power in the event Telocaset is unable to perform in accordance with the requirements of the PPA. These include provisions for damages if the project fails to deliver its guaranteed annual output, delay damages if the project does not become operational by the guaranteed in-service date of March 21, 2008, and a performance assurance of \$1 million prior to the in-service date, and \$10 million after the in-service date. If Telocaset fails to provide timely and reliable wind forecast data, the PPA contains a provision that allows the Company to implement 90%/110% performance band provisions as have been included in typical PURPA wind contracts. The obligations of Telocaset under the PPA will be secured by a guaranty issued by Goldman Sachs, Horizon's parent company. If the credit rating of Goldman Sachs falls below a predetermined level, it will be required to post a liquid form of performance assurance.

Staff agrees with the proposed accounting treatment of the costs associated with the PPA. The Company proposed 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 next general rate case, at which time the Company be allowed to include the costs of the PPA in base rates. Staff recommends that any expenses related to the "bridge" financing be considered for approval in a future proceeding, and 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 next rate case.

Staff states that although many of the principal provisions of the PPA are similar to provisions contained in the Company's existing PURPA contracts, there are many key differences that should be noted, such as: (1) PURPA contracts are considered firm energy agreements, implying that firm transmission capacity is available for the QFs entire output, while

the PPA only provides firm transmission capacity for 66 of the 100 MW output for Telocaset; (2) the PPA contains more stringent performance requirements, and has performance assurances secured by Goldman Sachs guarantees; (3) green tags are provided to Idaho Power at no additional cost under the PPA, whereas, the project developer under PURPA contracts retains them; and (4) Idaho Power also gains real-time access to the wind forecasting service used by the project providing next hour, next day, and next week forecasts of delivered energy.

Staff stresses that judgment as to the reasonableness of the PPA must be based on the PPA in its entirety. Although Staff feels that specific provisions in the PPA could have been stronger, it recognizes that all provisions were 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.

Staff recommends that the Commission find the PPA to be prudent and approve inclusion of the associated expenses in the PCA as requested.

COMMISSION DECISION

Does the Commission wish to approve the Purchased Power Agreement between Idaho Power Company and Telocaset Wind Power Partners, LLC? If so, does the Commission wish to authorize inclusion of the associated expenses in Idaho Power's annual Power Cost Adjustment?



Donovan E. Walker

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