

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR) CASE NO. IPC-E-06-34
APPROVAL OF A FIRM ENERGY SALES)
AGREEMENT FOR THE SALE AND)
PURCHASE OF ELECTRIC ENERGY)
BETWEEN IDAHO POWER COMPANY)
AND HOT SPRINGS WINDFARM LLC)**

**IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR) CASE NO. IPC-E-06-35
APPROVAL OF A FIRM ENERGY SALES)
AGREEMENT FOR THE SALE AND)
PURCHASE OF ELECTRIC ENERGY)
BETWEEN IDAHO POWER COMPANY) ORDER NO. 30453
AND BENNETT CREEK WINDFARM LLC)**

On September 12, 2007, Idaho Power Company (Idaho Power; Company) filed Motions with the Idaho Public Utilities Commission (Commission) in Case Nos. IPC-E-06-34 and IPC-E-06-35 requesting approval of Generation Interconnection Agreements (GIA) dated September 13, 2007 between the Company and Hot Springs Windfarm LLC (Hot Springs) and Bennett Creek Windfarm LLC (Bennett Creek). Interconnection service will be provided at 138 kV for the integration of 24 induction generator wind turbines for Bennett Creek/Hot Springs Windfarms. The interconnect location is (Township 4S, Range 8E, Section 23) Elmore County, Idaho. The total project output is 39.6 MW. Total transmission network upgrades (special facilities) cost is estimated to be \$2,155,000. The milestone date for construction completion is March 15, 2008. The Commission in this Order approves the Hot Springs/Bennett Creek Generation Interconnection Agreements.

Firm Energy Sales Agreements (and First Amendments) were earlier approved by the Commission between Idaho Power and Hot Springs in Case No. IPC-E-06-34 (Order Nos. 30246 and 30398) and Bennett Creek in Case No. IPC-E-06-35 (Order Nos. 30245 and 30399).

The Generation Interconnection Agreements are the first outside of the Twin Falls queue involving PURPA generating facilities subject to Idaho Power Schedule 72 which involve substantial upgrades to Idaho Power's transmission system. The allocation of costs from the transmission upgrades for the two projects was not addressed in Commission Order No. 30414 in

Case No. IPC-E-06-21 (the Cassia Gulch Wind Park and Cassia Wind Farm (collectively Cassia) case).

In the Cassia case, the Commission approved a settlement which implemented a cost-sharing arrangement (Cassia Formula) under which Idaho Power will contribute 25% of the cost of the needed transmission upgrades, Cassia will make a non-refundable 25% contribution in aid of construction (CIAC) to support the transmission upgrades and Cassia will make an advance in aid of construction (AIAC) for the remaining balance of the cost of the upgrades. The AIAC will be refunded to the Cassia projects over time if they fully perform their Firm Energy Sales Agreements with Idaho Power.

In Order No. 30414, the Commission concluded that use of the Cassia Formula was appropriate for the Cassia Wind Farms as well as the other PURPA generation projects in the Twin Falls 138 kV transmission queue. However, the Commission did not authorize the Company to automatically apply the Cassia Formula in other locations on its system where transmission upgrades would be required. Instead, the Commission indicated that the application of any terms or conditions approved as a part of the settlement in the Cassia case to other QF interconnection requests "will depend on the specific characteristics of that situation." Order No. 30414, p. 11.

In the GIAs between Idaho Power and Bennett Creek and Hot Springs, the parties have agreed to apply the Cassia Formula to share the costs of the transmission upgrades.

In concluding that it is appropriate to use the Cassia Formula for sharing costs of transmission upgrades, Idaho Power applied the Commission findings and conclusions in Order No. 30414 as follows:

1. But for the construction of the Hot Springs and Bennett Creek Windfarms, Idaho Power would not have constructed the transmission upgrades described in the Generator Interconnection Agreements to provide adequate service to its native load customers. Therefore, a contribution by the developers of a portion of the transmission upgrade cost is appropriate.
2. Idaho Power believes that in Order No. 30414 the Commission directed the Company to assess the benefits of individual transmission upgrades taking into consideration "the systemwide benefits that accrue to all customers on an integrated transmission grid." Order No. 30414, p. 10. One way to approach that assessment is to compare the level of benefits

that the upgrades will provide to the system with the level of benefits provided in the Cassia case. The Company acknowledges that it is nearly impossible to precisely quantify the relative system benefits conferred by two distinct and geographically separate transmission upgrades. However, transmission engineers can exercise their judgment and their knowledge of transmission systems they have designed and operate. Based on their informed judgment, Idaho Power's transmission engineers are of the opinion that the transmission upgrades identified in the GIAs will provide different benefits than the transmission system benefits the Cassia upgrades will provide. Where the Cassia upgrade will install a new transformer to interconnect the 230 and 138 kV transmission systems in the western portion of the Magic Valley, the improvements contemplated herein will upgrade (replace the line conductor) and update (replace poles, insulators and hardware not capable of supporting the larger conductor) on older transmission line. Some facilities on the line interconnecting the Bennett Creek and Hot Springs projects may have been providing service since 1921. The use of the Cassia Formula is reasonable in this circumstance.

3. The Company is also of the opinion that the application of the Cassia Formula in this case will maintain the balance between "the benefits accruing to the customers of the grid with the cost responsibility of the QF necessitating the timing and the construction of the upgrade." Order No. 30414, p. 11.
4. Hot Springs and Bennett Creek, like the QF projects in the Twin Falls queue, will displace or defer the need for other or similar generation projects in the Company's Integrated Resource Plan (IRP) that would likely require related transmission investment by the Company. Order No. 30414, p. 11.
5. Idaho Power believes that application of the Cassia Formula in this instance will allow it to successfully defend a comparability claim brought by a Federal Energy Regulatory Commission (FERC) jurisdictional customer claiming that Idaho Power and the Commission had given unlawful, preferential treatment to QF resources.

On September 18, 2007, the Commission issued a Notice of Motion for Approval of Generation Interconnection Agreements and Modified Procedure in Case Nos. IPC-E-06-34 and IPC-E-06-35. The deadline for filing written comments was October 4, 2007. The Commission Staff was the only party to file comments. Staff recommends approval of the Hot Springs/Bennett Creek Generation Interconnection Agreement. Staff agrees with all of the

reasons cited by Idaho Power as justification for applying the Cassia Formula to the Hot Springs and Bennett Creek projects. Although not cited by Idaho Power, Staff believes that another reason for supporting use of the Cassia Formula in this instance is because it creates an incentive for QFs to consider economic efficiencies in the siting of their generating facilities and reduces the potential for the shifting of costs from QFs to the Company and its customers that might occur if no transmission upgrade costs were assessed against the QF.

The primary difference between the Hot Springs/Bennett Creek GIA and the Cassia case, Staff notes, is that the Hot Springs/Bennett Creek GIA has no provisions for redispatch. In the Cassia case, the parties were able to negotiate an arrangement wherein Cassia and other projects using the same transmission facilities could potentially have their generation reduced when transmission capacity was limited. In exchange for the redispatchability by Idaho Power, Cassia and the other projects in the Twin Falls queue are responsible for a much lower transmission upgrade cost than would otherwise be required. In this case, however, by agreeing to bear its share of the costs to fully upgrade the capacity of the transmission line, Hot Springs/Bennett Creek will always be able to deliver their output. Thus, there will be no need for redispatch.

Noting that the underlying Power Sales Agreements for Hot Springs and Bennett Creek include the 90/110% performance requirement that provide for discounted payments in the event the project's predicted monthly performance falls outside of the performance band, Staff states that it does not object to the requirement for only 50% Mechanical Availability Guarantee as a condition for Hot Springs and Bennett Creek to receive repayment for advance in aid of construction (AIAC) network upgrades. However, Staff believes that in possible future instances where a higher Mechanical Availability Guarantee is required as a condition for receiving firm energy rates in a Power Sales Agreement, the same higher Mechanical Availability Guarantee should be required in order for the projects to receive repayment AIAC network upgrades.

Commission Findings

The Commission has reviewed the filings of record in Case Nos. IPC-E-06-34 (Hot Springs) and IPC-E-06-35 (Bennett Creek) including the Company's Motion to approve the related Generation Interconnection Agreements (GIA) for the two wind projects and the comments and recommendations of Commission Staff. We have also reviewed the related Firm Energy Sales Agreements for the two QF projects and our Orders approving same. Finally, the

Commission has reviewed its related Cassia Order No. 30414 in Case No. IPC-E-06-21 wherein we approved a methodology and formula for sharing transmission upgrade costs related to QF requests for interconnection in the Twin Falls queue.

This Commission, we find, has exclusive authority and jurisdiction over the interconnection and allocation of interconnection costs for QFs when an electric utility is required to interconnect under 18 C.F.R. § 292.303 of FERC's PURPA regulations (i.e., when the QF's entire output is sold to a regulated utility). 18 C.F.R. § 292.306. We have such jurisdiction and authority in these cases because Hot Springs and Bennett Creek are QFs with Commission-approved Firm Energy Sales Agreements requiring them to sell their entire output to Idaho Power. 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" page 135, ¶ 516). Under FERC rules, interconnection costs, including all reasonable costs of connection, switching, metering, transmission, distribution, safety provisions and administrative costs caused solely by such QF interconnection, may be assessed by this Commission against a QF. 18 C.F.R. §§ 292.306(a), (b); 292.101.7.

The Commission finds it reasonable to apply the Cassia Formula for allocation of transmission upgrade costs to the Bennett Creek and Hot Springs interconnect. We find the Generation Interconnection Agreement to be consistent with our Order No. 30414. While in the Cassia case we rejected use of the Cassia Formula as a template for other geographic areas, we stated that we would consider use of similar terms dependent upon the specific characteristics of an interconnect request. The Commission finds the assignment of costs in this case balances the benefits accruing to customers of the grid with the cost responsibility of the QFs necessitating the timing and construction of the upgrade. As in Cassia, we find that the cost sharing approach reflected in the GIA (i.e., 25% non-refundable QF contribution in aid of construction (CIAC)) creates an incentive for QFs to consider economic efficiencies in the siting of their generating facilities and reduces the potential for the shifting of costs from QFs to the Company and its customers that might occur if no transmission upgrade costs were assessed against the QF. We also find persuasive, as in Cassia, a recognition that the Bennett Creek and Hot Springs projects displace or defer the need for other or similar generation projects in the Company's Integrated Resource Plan (IRP), resource acquisitions that would likely require related transmission

investment by the Company. We find the identified reasons advanced by Company and Staff in support of the Generation Interconnection Agreement to be persuasive and we find it reasonable to approve the Bennett Creek/Hot Springs Generation Interconnection Agreements.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over Idaho Power Company, an electric utility, pursuant to the authority and power granted it under Title 61 of the Idaho Code and the Public Utility Regulatory Policies Act of 1978 (PURPA).


The Commission has authority under PURPA and the implementing regulations of the Federal Energy Regulatory Commission (FERC) to set avoided costs, to order electric utilities to enter into fixed-term obligations for the purchase of energy from qualified facilities (QFs) and to implement FERC rules.

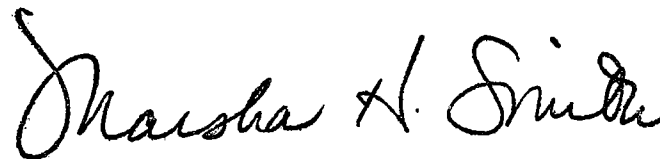
ORDER


In consideration of the foregoing, IT IS HEREBY ORDERED and the Commission does hereby approve the September 13, 2007 Generation Interconnection Agreements (GIA) between Idaho Power Company and Hot Springs Windfarm LLC and Bennett Creek Windfarm LLC.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

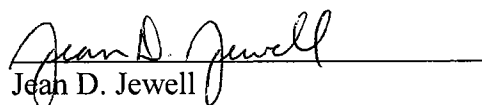
DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 12th
day of October 2007.


PAUL KJELLANDER, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


MACK A. REDFORD, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

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