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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Motion for Approval of Generation Interconnection Agreements, Notice of Modified Procedure and Notice of Comment/Protest Deadline issued on September 18, 2007, submits the following comments.

BACKGROUND

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 Agreement (GIA) dated September 13, 2007 between the Company and Hot Springs Windfarm LLC (Hot Springs) and Bennett Creek Windfarm LLC (Bennett Creek). A single GIA covers both the Bennett Creek and the Hot

Springs Windfarm projects because a single interconnection will be built to interconnect both projects and the same developer is developing both projects.

Interconnection service will be provided at 138 kV at a single point of interconnection for the integration of 24 induction generator wind turbines for Bennett Creek/Hot Springs Windfarms. The interconnect project's location is (Township 4S, Range 8E, Section 23) Elmore County, Idaho. The collective capacity of both projects is 39.6 MW. Total interconnection facilities cost is estimated to be \$450,000. Transmission network upgrades cost is estimated to be \$2,155,000. The milestone date for construction completion is March 15, 2008. Commercial operation is scheduled for April 1, 2008.

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).

ANALYSIS

The Generation Interconnection Agreement is the first outside of the Twin Falls transmission queue involving PURPA generating facilities subject to Idaho Power Schedule 72 that require 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) because the two projects are not considered part of the Twin Falls transmission queue.

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.

As stated previously, neither the Hot Springs nor the Bennett Creek projects are considered part of the Twin Falls transmission queue, therefore, neither was automatically subject to the Cassia Formula. However, in the GIA 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.

Justification for Use of the Cassia Formula

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 developer 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 system wide 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) an 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.

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. Order No. 30414, p. 10.

Differences Between Cassia and Hot Springs/Bennett Creek

The primary difference between the Hot Springs/Bennett Creek GIA and the Cassia case 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 this redispatch ability 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 cost 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.

Transmission Interconnection and Network Upgrade Costs

There are two cost categories in the GIA, a) interconnection costs and b) network upgrade costs. Interconnection costs are the costs of those facilities necessary to get the project's generation to the transmission system. Network upgrade costs are the costs of improvements to the transmission system itself. The Hot Springs and Bennett Creek projects will be located immediately adjacent to each other. There will be a single point of interconnection, therefore, there is only one set of interconnection and network upgrade costs. The estimated interconnection cost for both projects together is \$450,000. The estimated network upgrade cost for both projects together is \$2,155,000.

Under the terms of the GIA, network upgrade costs are subject to sharing consistent with the Cassia Formula. Hot Springs/Bennett Creek and Idaho Power will share the actual network upgrade costs attributable to the project as follows:

- (a) 25% of the costs will be provided by Hot Springs/Bennett Creek as a non-refundable contribution in aid of construction ("CIAC")
- (b) 25% of the costs will be funded by Idaho Power and included in Idaho Power's rate base.
- (c) 50% of the costs will be funded by Hot Springs/Bennett Creek as an advance in aid of construction ("AIAC") subject to refund as discussed below. As refunds are made, the refunded amounts will be included in rate base using standard regulatory accounting principles.

A summary of the estimated costs and the proposed sharing is shown below.

Idaho Power Costs	25%	\$538,750
Non-reimbursable CIAC Costs	25%	\$538,750
Reimbursable AIAC Costs	50%	\$1,077,500

Repayment of AIAC for Network Upgrades

Hot Springs and Bennett Creek will be entitled to a cash repayment, in monthly, equal installments, for the total AIAC amount Hot Springs and Bennett Creek advance to Idaho Power for Network Upgrades. Reimbursement will occur over a term not to exceed ten years after the date the Hot Springs and Bennett Creek projects achieve their Operation Date under the Firm Energy Sales Agreement ("FESA"). Repayments will be made in accordance with Article 11.4

of the Standard Large Generator Interconnection Agreement, included in Idaho Power's OATT. Repayments in any month will be contingent on the FESAs being in good standing (no uncured defaults) and Hot Spring's and Bennett Creek's generating facilities achieving a mechanical availability in that month in excess of 50%.

The Hot Springs and Bennett Creek power sales agreements include the 90/110% performance requirements that provide for discounted payments in the event the project's predicted monthly performance falls outside of the performance band. Because the power sales agreements contain this provision, Staff does not object to the requirement for only a 50% mechanical availability guarantee as a condition for Hot Springs and Bennett Creek to receive repayment for AIAC network upgrades. However, 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, Staff believes that the same higher mechanical availability guarantee should be required in order for the projects to receive repayment for AIAC network upgrades.

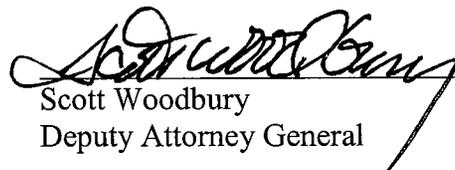
RECOMMENDATION

Staff recommends approval of the Hot Springs/Bennett Creek Generation Interconnection Agreement.

Respectfully submitted this

4th

day of October 2007.



Scott Woodbury
Deputy Attorney General

Technical Staff: Rick Sterling

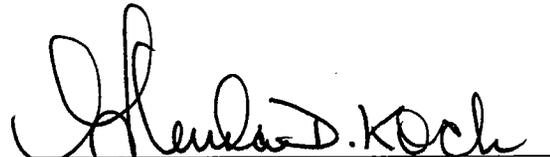
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CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 4TH DAY OF OCTOBER 2007, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-06-34, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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