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UTILITIES COMMISSION

Barton L. Kline
Senior Attorney

October 19, 2007

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
P. O. Box 83720
Boise, Idaho 83720-0074

Re: Case No. IPC-E-07-03
In the Matter of Idaho Power Company's Petition to Increase the
Published Rate Eligibility Cap for Wind Powered Small power
Production Facilities; and

To Eliminate the 90%/110% Performance Band for Wind Powered
Small Power Production Facilities

Dear Ms. Jewell:

Please find enclosed for filing an original and seven (7) copies of Idaho Power's
Reply Comments in the above-referenced matter.

I would appreciate it if you would return a stamped copy of this transmittal letter in
the enclosed self-addressed, stamped envelope.

Very truly yours,

Barton L. Kline

BLK:sh
Enclosures

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IDAHO PUBLIC UTILITIES COMMISSION

BARTON L. KLINE, ISB # 1526
LISA D. NORDSTROM, ISB No. 5733
Idaho Power Company
1221 West Idaho Street
P. O. Box 70
Boise, Idaho 83707
Telephone: (208) 388-2682
FAX Telephone: (208) 388-6936
bkline@idahopower.com
mmoen@idahopower.com

Attorneys for Idaho Power Company

Express Mail Address

1221 West Idaho Street
Boise, Idaho 83702

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER)	
COMPANY'S PETITION TO INCREASE)	
THE PUBLISHED RATE ELIGIBILITY CAP)	CASE NO. IPC-E-07-03
FOR WIND POWERED SMALL POWER)	
PRODUCTION FACILITIES; and)	IDAHO POWER'S REPLY
)	COMMENTS
TO ELIMINATE THE 90%/110%)	
PERFORMANCE BAND FOR WIND)	
POWERED SMALL POWER PRODUCTION)	
FACILITIES)	
_____)	

COMES NOW, Idaho Power Company ("Idaho Power" or "the Company") and hereby responds to the Comments of Exergy Development Company of Idaho, LLC ("Exergy") as follows:

RESPONSE TO EXERGY'S COMMENTS

1. Exergy's Comments Do Not Consider the Joint Settlement Agreement.

In its Comments, Exergy urges the Commission to conduct a full evidentiary hearing to investigate Idaho Power's wind integration costs. However, Exergy also acknowledges that prior to filing its Comments it did not have time to review the Joint Settlement Agreement that the Company, Renewable Northwest Project and NW Energy Coalition filed with the Commission on October 2, 2007 ("Joint Settlement Agreement"). The fact that Exergy's Comments were made without consideration of the Joint Settlement Agreement is important because most of the issues raised in Exergy's Comments were addressed and, in Idaho Power's view, resolved by the Joint Settlement Agreement. However, there are still two points raised in Exergy's Comments that require clarification by Idaho Power so that the Commission has all of the facts it needs to make an informed decision on Exergy's request that the Commission conduct an evidentiary proceeding to analyze Idaho Power's wind integration costs.

2. Wind Integration Cost Studies From Other Regions and Continents Do Not Provide Valid Information Regarding Idaho Power's Integration Costs.

In its Comments Exergy includes a chart (Attachment A) which purports to compile the results of a number of wind integration cost studies that have been performed over the past several years, principally by utilities in the mid-west, California and Europe. Exergy presents Attachment A, which includes excerpts from two Department of Energy reports and the comments of Renewable Northwest Project, a wind generation advocacy group, to support its assertion that "Idaho Power's wind integration rate is wildly inaccurate." (Exergy Comments p. 8). Exergy immediately

qualifies its prior statement by admitting that the comparison data it presents in Attachment A is “not designed to indicate what Idaho Power’s integration costs really are. . .” and “the attached table *suggests* that said inputs *may* actually overstate Idaho Power’s true wind integration costs.” (Emphasis added) (Exergy Comments p. 8).

Exergy’s assertion that the results of various wind integration cost studies, undertaken principally in Europe, the mid-western United States and California, provide evidence of what Idaho Power’s wind integration costs should be, does not pass the common sense test. Exergy’s claim is similar to arguing that the fact that Pacific Gas & Electric charges its San Francisco residential electric customers approximately 20 cents per kWh or Hawaiian Electric charges its Honolulu residential customers approximately 18 cents per kWh is evidence that Idaho Power’s residential electric rates of approximately 5.2 cents per kWh are too low.¹ Wind integration costs, like residential electric rates, depend on the individual cost-causation factors and circumstances of the individual electric utilities providing the wind integration.

Exergy admits that the information it presents in Attachment A does not demonstrate what Idaho Power’s actual wind integration costs are. (Exergy Comments p. 8). Unfortunately Exergy does not make any effort to put the data it presents in context by explaining why the wind integration studies cited in Attachment A do not provide information that can be used to compute the costs Idaho Power will incur as it integrates more wind generation resources into its system. There are multiple reasons why Idaho Power’s wind integration costs will be higher than the wind integration costs contained in the studies identified by Exergy. The following are the four primary ones:

¹ Electric rate data taken from EEI Comparison of Residential Electric Rates, dated January 1, 2007. Average price based on usage of 1000 kWh per month.

(a). Wind Integration Costs Should be Lower for Utilities that Have Access to Large Power Pools with Intra-Hour Markets.

A significant number of the utilities whose wind integration studies are cited in Exergy's Comments operate in areas where the integrating utilities have access to large, diverse secondary power markets where the utilities can buy and sell energy in as little as ten minute intervals. It is not difficult to understand how this would allow a utility to integrate intermittent wind resources at much lower costs than a utility like Idaho Power that only has access to hourly markets. If Idaho Power could utilize a large, diverse, intra-hour market to quickly acquire resources when intermittent wind energy resources rapidly reduce their generation or could quickly sell resources into the market when the wind increases, Idaho Power could reduce its wind integration costs.

In the future, if regional intra-hour markets develop and Idaho Power increases its interstate transmission capabilities, Idaho Power may be able to participate in such intra-hour markets. But at the current time such a market is not available to Idaho Power and the Company must rely on its own hydro generation to follow rapid increases and decreases in wind generation. It is the use of the hydro system for wind integration that was the basis for the costs identified in Idaho Power's wind integration study. The predominance of hydroelectric generation in the Company's generation resource portfolio sets Idaho Power apart from the utilities cited in Exergy's Comments.

(b). Wind Integration Cost Should be Lower for Utilities that Have High Fuel Cost Thermal Generating Resources Operating at the Margin.

The generating resource portfolios of many of the utilities whose wind integration cost studies are cited in Attachment A to Exergy's Comments include a large proportion

of thermally-fueled base load generating resources, many of which are natural gas-fired resources. These natural gas-fired resources operate at a high capacity factor and their fuel costs represent the system marginal costs of the cited utilities. As a result, when wind resource generation increases, the utility can quickly reduce its natural gas-fired generation and save the cost of the fuel that otherwise would have been burned by the marginal gas-fired generating facility. Idaho Power does not have natural gas-fired thermal generating resources that it can operate in that same way. The vast majority of Idaho Power's thermal resources are coal-fired resources that operate as base load plants.

Ramping coal-fired plants up and down to follow the intermittent generation from wind resources is inconsistent with good operating practices for base load coal-fired generating resources. Idaho Power's current natural gas-fired resources are simple cycle peaking resources that are not Idaho Power's best economic choice for load following. In the future, if Idaho Power acquires a base load natural gas-fired resource that operates for a significant part of the time as the Company's marginal resource, the cost of the natural gas to fuel this resource would become a significant portion of the cost of integrating wind resources. But until Idaho Power's generation fleet includes a significant portion of higher capacity factor natural gas-fired resources, it is misleading to compare Idaho Power's wind integration cost to the costs of utilities that operate a different portfolio of resources.

(c). Wind Integration Costs Should be Lower for Utilities that Operate a Large, Diverse Control Area.

Several of the utilities whose wind integration studies Exergy cites in its Comments are substantially larger than Idaho Power and operate large control areas

that have significantly more diversity in loads and resources than does Idaho Power's control area. As a result, generation changes from intermittent wind resources have a much lower impact on these systems than they will on Idaho Power's system. This is why PacifiCorp, with its larger and more diverse control area can expect to experience wind integration costs significantly lower than Idaho Powers' wind integration costs.

There are preliminary efforts currently underway in the western United States to better integrate the multiple control areas currently operated by the various utilities to provide a greater level of transmission efficiency and risk mitigation among resources on a regional basis. If these efforts are successful, Idaho Power's wind integration costs could be mitigated by the ability of the Company to spread costs and risks over a more diverse portfolio of wind resources in a larger control area.

- (d). Idaho Power's Substantial Hydroelectric Base, Transmission Constraints and Load Profiles are Different than the Utilities Cited in Exergy's Comments.

Idaho Power's wind integration study recognizes the unique circumstances associated with Idaho Power's system. Because of the predominance of hydroelectric generation in the Company's generation resource portfolio and the transmission constraints that limit access to regional markets, Idaho Power must utilize its hydroelectric system to manage the rapid changes in generation coming from intermittent wind resources. But to do this, the Company has to reallocate the use of water and shift generation from time periods when the generation is more valuable to time periods when it is less valuable. This shifting of water to integrate wind resources is the primary driver of Idaho Power's wind integration costs and is unique to Idaho

Power because the Company's hydroelectric resources are such a large percentage of its resource portfolio.

This unique hydroelectric reliance is not present in the integration costs of the other utilities cited by Exergy and explains, to a large extent, the differences between the wind integration costs cited by Exergy and the wind integration costs identified in Idaho Power's study.

2. Idaho Power Will Have a Large Amount of Wind Generation to Integrate into its System.

Exergy argues that Idaho Power only has a small amount of wind resources currently on its system and should not be permitted to compute wind integration costs based on the assumption that it will be required to integrate a substantial amount of wind generation. (Exergy's Comments p. 4).

To a large extent, this portion of Exergy's Comments has been rendered moot by the filing of the Joint Settlement Agreement. In the Joint Settlement Agreement Idaho Power has agreed to tie the level of wind integration costs collected from QFs to the number of megawatts of wind generation that are actually interconnected to the Company's system. However, because the Company currently has 366 MWs of Commission-approved contracts with wind developers, it would not be reasonable for the Company to establish long-run wind integration costs based on the assumption that only a very small portion of those contracts will ultimately result in the construction of wind generation projects.² Because wind developers desire 20-year contracts, Idaho Power must look at the long-run impact of wind integration costs. To do otherwise carries a considerable risk of adverse consequences for customer rates.

² Idaho Power currently has Commission-approved contracts with Exergy in which Exergy has committed to develop more than 150 MW of wind generation which it intends to sell to Idaho Power.

3. The Joint Settlement Agreement Addresses All of Exergy's Concerns.

In its Comments, Exergy also argues that wind integration costs should be variable and increase or decrease over time. Idaho Power agrees with that proposition. In fact, the Joint Settlement Agreement specifically calls for continuing analysis of the Company's wind integration costs and a recognition that wind integration costs could go up or down depending on the acquisition of additional scientific data and a reasonable period of experience with integrating wind resources.

Exergy also advocates placing a cap (but not a floor) on the ability of Idaho Power to recover its wind integration costs.

Again, the Joint Settlement Agreement addresses Exergy's concern. The Joint Settlement Agreement includes a cap on wind integration cost increases.

Conclusion

For the foregoing reasons, Idaho Power respectfully requests the Commission deny Exergy's request that the Commission conduct a full evidentiary hearing regarding the cost of integrating wind integration resources onto Idaho Power's system.

Respectfully submitted this 19th day of October, 2007.



BARTON L. KLINE
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 19th day of October 2007, I served a true and correct copy of the within and foregoing document upon the following named parties by the method indicated below, and addressed to the following:

Commission Staff

Scott Woodbury
Deputy Attorney General
Idaho Public Utilities Commission
472 W. Washington (83702)
P.O. Box 83720
Boise, Idaho 83720-0074

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email scott.woodbury@puc.idaho.gov

Exergy Development Group of Idaho

Peter J. Richardson, Esq.
Richardson & O'Leary
515 N. 27th Street
P.O. Box 7218
Boise, Idaho 83702

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email peter@richardsonandoleary.com

Don Reading
Ben Johnson Associates
6070 Hill Road
Boise, Idaho 83702

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email dreading@mindspring.com

Renewable Northwest Project and NW Energy Coalition

William M. Eddie
Advocates for the West
610 SW Alder Street, Suite 910
Portland, OR 97205

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email beddie@advocateswest.org

Natalie McIntire
Renewable Northwest Project
917 SW Oak Street, Suite 303
Portland, OR 97205

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email

Ridgeline Energy, LLC

Rich Rayhill
720 W. Idaho, Suite 39
Boise, Idaho 83702

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email r-rayhill@rl-en.com

Robert M. Ellis, Esq.
4 Nickerson, Suite 301
Seattle, WA 98109

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email rellis@rl-en.com

Blue Ribbon Energy LLC
M.J. Humpries
Blue Ribbon Energy LLC
2630 Central Ave.
Idaho Falls, Idaho 83406

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email blueribbonenergy@gmail.com

Avista
R. Blair Strong
Jerry K. Boyd
Paine Hamblen, LLP
717 W. Sprague, Suite 1200
Spokane, WA 99220

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email r.blair.strong@painehamblen.com

Michael G. Andrea
Avista Corporation
1411 East Mission Ave., MSC-23
Spokane, QA 99202

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email Michael.andrea@avistacorp.com

Cassia Gulch Wind Park LLC
Cassia Wind Farms LLC
Dean J. Miller
McDevitt & Miller, LLP
P.O. Box 2564
Boise, Idaho 83701

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email joe@mcdevitt-miller.com

Ronald K. Arrington
Associate Chief Counsel
John Deere Renewables, LLC
6400 NW 86th Street
P.O. Box 6600
Johnston, IA 50131

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email

Idaho Windfarms LLC
Glenn Ikemoto
Authorized Manager
Idaho Windfarms, LLC
672 Blair Ave.
Piedmont, CA 94611

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email glenni@pacbell.net

Snake River Alliance

Ken Miller
Clean Energy Program Director
Snake River Alliance
P.O. Box 1731
Boise, Idaho 83701

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email kmiller@snakeriveralliance.org

Renaissance Engineering & Design

Brian D. Jackson
Renaissance Engineering
& Design, PLLC
2792 Desert Wind Road
Oasis, Idaho 83647-5020

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email brian@clever-ideas.com

Gerald Fleischman

Gerald Fleischman
11535 W. Hazedale Ct.
Boise, Idaho 83713

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email gfleisch986@hotmail.com

INL

Gary D. Seifert, P.E.
Kurt Myers, P.E.
INL
2525 S. Fremont Ave.
P.O. Box 1625, MS 3810
Idaho Falls, Idaho 83415

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 Email gary.seifert@inl.gov
Kurt.myers@inl.gov



BARTON L. KLINE