

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

YOU ARE HEREBY NOTIFIED that on February 6, 2007, Idaho Power Company (Idaho Power; Company) filed a Petition with the Idaho Public Utilities Commission (Commission) requesting a Commission order

1. Raising the cap on entitlement to published avoided cost rates for intermittent wind powered small power production facilities that are qualifying facilities (QFs) under Sections 201 and 210 of the Public Utility Regulatory Policies Act of 1978 (PURPA) from the current level of 100 kW to 10 aMW per month; and

2. Authorizing Idaho Power to purchase state-of-the-art wind forecasting services that will provide the Company with forecasts of wind conditions in those geographic areas where the Company's wind generation resources are located. It is Idaho Power's proposal that the order should further provide that wind powered QFs will reimburse the Company for their share of the cost of the wind forecasting service; and

3. Authorizing Idaho Power to require the inclusion of a Mechanical Availability Guarantee (MAG) in all new contracts to purchase energy from wind powered QFs; and

4. In conjunction with the Commission's approval of paragraphs 1, 2 and 3 above, the Company proposes to eliminate the requirement that the 90%/110% performance band be included in new contracts for energy purchases from intermittent wind powered QFs.

Background

On August 4, 2005, the Commission entered interlocutory Order No. 29839 in Case No. IPC-E-05-22 reducing the published rate eligibility cap for intermittent QF wind projects from 10 aMW/month to 100 kW and required individual contract negotiations for wind QFs

larger than 100 kW. Order No. 29839 also established grandfathering criteria for QF wind projects that were in various stages of negotiation with Idaho Power at the time Order No. 29839 was issued. The Commission's Order was subsequently designated a final Order for purposes of reconsideration and appeal. No appeals were filed.

In interlocutory Order No. 29839 (final Order No. 29851), the Commission found that wind generation presents operational integration costs to a utility different from other PURPA qualified resources. The Commission also found that the unique supply characteristics of wind generation and the related integration costs provided a basis for adjustment of the published avoided cost rates, a calculated figure that may be different for each utility. In the IPC-E-05-22 case, Idaho Power advised the Commission that it intended to perform a study to quantify the additional costs it would incur directly related to purchasing a significant amount of wind generation (the Wind Integration Study; the Study). The Company further advised the Commission that upon completion of the Study, the Company would provide it to the Commission for its consideration.

Wind Integration Study – Integration Cost \$10.72/MWh

Idaho Power presents in this case its Wind Integration Study. To assist the Company in preparing its Study, the Company retained the services of EnerNex Corporation. EnerNex retained WindLogics, Inc. to assist by developing the historical wind speed data set for the Study. Both consultants, the Company contends, are acknowledged as experts in their respective fields, analysis and preparation of wind integration studies (EnerNex) and atmospheric modeling and analysis (WindLogics). Idaho Power distributed a peer review draft of the Study to a number of entities that are considering similar wind integration issues on a regional basis. These entities were given the opportunity to provide the Company with a review of the methodology used in the peer review draft of the Study. The peer review participants were Avista, BPA, Grant County PUD, National Renewable Energy Laboratory, Northwestern Energy, Oakridge National Laboratory, PacifiCorp, Puget Sound Energy, Renewable Northwest Project, Seattle City Light, and two independent consultants. Based on comments received from the peer review group and with further refinements performed by the Company, the methodology was finalized and the final Study prepared. A copy of the final Study is enclosed as Attachment 1 to the Petition.

Wind Integration Study

The Wind Integration Study submitted in this case quantifies some of the additional costs of including variable intermittent wind resources in Idaho Power's resource portfolio. These additional costs, the Company contends, reduce the savings that the published rates assume the Company can obtain by purchasing QF resources rather than generating the same amount of power from the Surrogate Avoided Resource (SAR) used to set Idaho Power's avoided cost. For this reason, the Company contends that the published QF rates do not reflect the actual costs Idaho Power can avoid by purchasing energy from intermittent QF wind resources and are therefore in violation of PURPA requirements. The Study, the Company states, confirms that avoided cost rates paid to intermittent wind powered QF resources must be reduced to be in compliance with PURPA.

Idaho Power expresses its concern that the Study, which generally will be referred to as Idaho Power's "Wind Integration Study" might leave the incorrect impression that the Study covers all costs of integrating wind generation. In fact, the Company contends a number of potentially significant costs associated with the integration of wind resources are not addressed in the Wind Integration Study. The Study addresses only the additional costs the Company will incur in providing the additional up and down regulating reserves necessary to integrate or "firm" the wind integration without a reduction in reliability. The Company assumes that the Company's Hells Canyon Complex is used as the primary resource to provide the "firming" role. The Study also describes the role that market prices play in determining the additional costs the Company will incur as a result of making additional market purchases during heavy load hours and additional sales during light load hours. The Company states that the additional purchases and sales are necessary because of the changes in Hells Canyon Complex operations required to provide the additional up and down regulated reserves required to integrate various amounts of wind energy.

The submitted Study does not consider or attempt to quantify other critical wind integration cost issues such as how the firming requirements of wind will affect operations and maintenance costs of the Company's low cost hydro system. To a significant degree, the Company contends that those wind integration impacts cannot be analyzed and quantified without a reasonable period or experience with actual operations after wind resources are added.

In addition, the Study does not consider the impacts of the integration of substantial wind generating resources on the Company's transmission system, either internal or interconnecting to other utilities or regions or the infrastructure investment levels necessary to support the growth in wind generation demands on the system. Furthermore, the Study does not consider the fact that, once the number of developed wind projects reaches a certain level, the firming availability of the Company's hydroelectric resources will have been exhausted and the firming requirements for additional resources of any kind will have to come from new, and much more expensive backup sources such as coal and gas-fired plants.

Based on the modeling described in the Study, Idaho Power has computed the additional costs it estimates it will incur as a result of incorporating varying amounts of energy produced by intermittent wind generators. Based on the average costs (\$/MWh) Idaho Power has computed the amounts that it believes should be deducted from the published avoided cost rates so that the published rates will more accurately reflect Idaho Power's avoided costs. The Company currently has signed contracts or commitments to develop 384 MW (nameplate capacity) of wind generation. Idaho Power proposes that the prospective cost reduction be set at \$10.72 per MWh which is the midpoint between the cost associated with the current contract amount of 384 MW and the additional cost that will be incurred at a 20% penetration level, 600 MW. The cost at this midpoint level (492 MW) is \$10.72 per MWh. Idaho Power requests that, in conjunction with an increase in the cap on entitlement to published rates, the Commission order a reduction in the published avoided cost prices to be paid to intermittent wind energy QFs in the amount of \$10.72/MWh. The deduction is reflected in the published chart amounts set out in Petition Attachment 2.

As Idaho Power gains experience with integrating wind generation into its resource portfolio, it states that it will update the Study and present the results of the update to the Commission. Idaho Power anticipates that an update will be completed on or before the time the Company expects to have 600 MW of intermittent wind in its energy portfolio.

Elimination of 90%/100% Performance Band Requirement

Idaho Power believes that inclusion of the 90%/100% performance band provisions in QF contracts (reference Order No. 29632) has been effective in (1) promoting more accurate estimates of monthly energy deliveries and (2) more closely aligning the value of QF generation with the published avoided cost rates. That being said, Idaho Power is prepared to recommend

that the Commission eliminate the requirement that the 90/110 performance band be included in energy purchase contracts involving intermittent wind powered QFs, provided that the following three criteria are met.

1. Wind QFs Will Fund Their Share of Wind Forecasting Services

Idaho Power proposes that it be authorized to purchase state-of-the-art wind forecasting services that will deliver to Idaho Power forecasts of wind conditions in those specific geographic areas where the Company's wind resources are located. Idaho Power believes that it is appropriate that the cost of the wind forecasting service be shared among all purchased and owned wind generation resources included in Idaho Power's resource portfolio. Idaho Power is confident that the mechanics of cost sharing can be mutually agreed upon by the parties in settlement discussions.

2. Wind QFs Will Provide a Mechanical Availability Guarantee

Idaho Power is aware that the concept of substituting a Mechanical Availability Guarantee (MAG) for the 90/110 performance band has been considered and rejected by the Commission. (Reference Order No. 29880.) Idaho Power is not proposing that a MAG be considered a one-for-one replacement for the 90/110 performance band. Instead, Idaho Power is proposing that the MAG be only one of three criteria to be satisfied as a condition precedent to elimination of the 90/110 performance band. Idaho Power proposes that the MAG require wind QFs to demonstrate each month that, except for scheduled maintenance and force majeure events, the wind project is physically capable of generating at full output during 85% of the hours in the month. Failure to comply with the Mechanical Availability Guarantee would result in the payment of liquidated damages.

3. Intermittent Wind QFs Will Be Paid Lower Rates

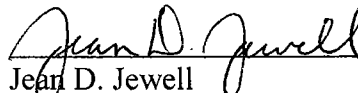
The third condition for the elimination of the 90/110 performance band for wind QFs is the adoption by the Commission of reduced published QF rates that recognize the additional costs Idaho Power will incur as it acquires increasingly large amounts of wind generation (i.e., wind integration adjustment – \$10.72/MWh). Idaho Power's proposed changes to the published rates for the first 600 MW of new wind powered QFs are set out in Petition Attachment 2.

YOU ARE FURTHER NOTIFIED that the Petition in Case No. IPC-E-07-03 may be viewed at www.puc.idaho.gov by clicking on "File Room" and "Electric Cases," or can be

viewed during regular business hours at the Idaho Public Utilities Commission, 472 W. Washington Street, Boise, Idaho and at the general business office of Idaho Power Company, 1221 West Idaho Street, Boise, Idaho.

YOU ARE FURTHER NOTIFIED that the Commission acknowledges Idaho Power's intention as a matter of preliminary procedure and prior to any procedural scheduling by this Commission to schedule and conduct at least one workshop in Case No. IPC-E-07-03 in which its Petition (and the two attachments) can be discussed with the Company and EnerNex, the consultant and co-author of the Study. The Company has provided electronic notice of this workshop to all participants in Case No. IPC-E-05-22 proceedings and workshops. Workshop details can be obtained by contacting Mark Stokes at Idaho Power: e-mail: mstokes@idahopower.com; telephone (208) 388-2483. Following the initial workshop by Idaho Power in this case, the Commission is informed that Commission Staff will file a status report with the Commission and/or a recommendation for further procedure and scheduling.

DATED at Boise, Idaho this 16th day of February 2007.


Jean D. Jewell
Commission Secretary

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