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Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER)	
COMPANY'S PETITION TO REVISE THE)	CASE NO. IPC-E-07-4
PUBLISHED AVOIDED COST RATES TO)	
INCLUDE A DAILY LOAD SHAPE; AND)	COMMENTS OF THE
)	COMMISSION STAFF
TO CLARIFY THE RULES GOVERNING)	
ENTITLEMENT TO PUBLISHED AVOIDED)	
COST RATES.)	
)	

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 Petition, Notice of Modified Procedure and Notice of Comment/Protest Deadline issued on February 16, 2007, submits the following comments.

BACKGROUND

On February 6, 2007, Idaho Power Company (Idaho Power; Company) filed a Petition with the Idaho Public Utilities Commission (Commission) requesting authority to revise its published avoided cost rates for qualifying facilities (QFs) under Sections 201 and 210 of the Public Utility Regulatory Policies Act of 1978 (PURPA) to reflect Idaho Power's daily load shape and recognize the difference in value between energy delivered by QFs during heavy load hours

and energy delivered during light load hours. As reflected in the Company's Petition, this revision would not change the computation of avoided cost but it could change the total revenues received by QFs depending on when during the day they deliver energy.

The Company in its Petition also seeks to clarify the rules governing the entitlement to published rates to prevent QF projects capable of delivering more than 10 aMW per month from artificially restructuring into smaller projects in order to qualify for the published avoided cost rates.

ANALYSIS

Daily Load Shape Adjustment

Since the early 1980s, when PURPA was first implemented in Idaho, the Commission has permitted Idaho Power to shape its QF purchase rates to address the difference in energy values between the various seasons of the year. This "seasonalization" of the avoided cost rates recognizes that energy delivered by QFs has different values based on when it is delivered. For example, a weighting factor of 0.735 is applied to the Company's published avoided cost rates in March, April and May; a weighting factor of 1.20 is applied in July, August, November and December, and no weighting factor is applied in the remaining months.

Similar to seasonalization, Idaho Power contends that energy provided by QFs has different values based on how it can help meet the Company's daily load peaks. This difference in value between heavy load hours and light load hours was the basis for the daily shape adjustment that was recently approved for Avista in Commission Order No. 30111 issued in Case No. AVU-E-06-4.

The proposed daily shape adjustment would create a difference between on-peak and off-peak avoided cost rates of \$11.63 per MWh. The daily shape adjustment would be prorated based on heavy and light load hours. For example, if the published avoided cost rate is \$52.69 per MWh, the on-peak rate would be \$57.86 and the off-peak rate would be \$46.23 per MWh. Attachment 1 to the Company's Application illustrates what the avoided cost rates would be with and without the daily shape adjustment.

The effect of the proposed change would be that projects that generate more during on-peak hours would receive greater revenue than if no daily shape adjustment was applied, and projects that generate more during off-peak hours would generate less revenue. Projects with a flat generation shape spread evenly throughout the day would receive the same revenue and be

unaffected by the daily shape adjustment. The daily shape adjustment would, of course, only be applied to new contracts; therefore, existing PURPA contracts would be unaffected.

Like the seasonalization factors that have been used for many years, the proposed daily shape adjustment is not a precise way to adjust avoided cost rates to reflect the value of power at the time of delivery. Instead, both mechanisms are approximate adjustments that acknowledge that the value of power depends on the timing of its delivery. While neither adjustment mechanism will ever be exactly accurate, both adjustments produce rates that are closer to real-time rates than if no adjustments were made. The proposed daily shape adjustment provides incentive for power producers to deliver power during more valuable hours.

Idaho Power's proposed amount of \$11.63 per MWh as a daily shape adjustment is based on the weighted difference in value between on-peak and off-peak prices (the "spread"). To calculate this value, Idaho Power accumulated historical daily volumes and prices for all Mid-Columbia Firm Heavy Load Hour (HLH) and Light Load Hour (LLH) transactions for January 1, 2003 through January 20, 2007 provided by Dow Jones.

Although Staff supports the introduction of a daily shape adjustment, Staff believes that the amount of the adjustment proposed by Idaho Power is too high. First, Staff does not believe that it is appropriate to compute a weighted spread based on daily trading volumes because daily prices are completely independent of daily volumes. If a non-weighted average spread were computed instead, the adjustment would be \$8.90 per MWh. Second, an examination of the daily price data shows that the daily spreads exceed the \$11.63 proposed by Idaho Power only 23 percent of the time. This is because the average of the daily spreads is affected by a few days during the year when the difference between heavy and light load hour prices is extreme.

Staff proposes that the daily shape adjustment amount be computed as the median of the historic values since January 1, 2003. The median of the historic values is \$7.28. Staff believes that the median value better represents the difference in value between heavy and light load hours because, by definition, exactly half the time the spread is greater and half the time the spread is less. Furthermore, because the spreads are not symmetric, Staff believes the median is a better representation of the expected spread than either the weighted or the non-weighted average spread. Attachment 1 shows both an exceedance curve and a histogram depicting the frequency of the historical spreads. Staff contends that even a simple visual inspection of the curves better supports using the median rather than the average of the historical spreads.

Moreover, the daily shape adjustment recently approved for Avista was only \$5 per MWh. By Staff's and Avista's own admissions, this value was conservative; nevertheless, it is less than half of Idaho Power's proposed adjustment amount.

Finally, another reason for adopting an adjustment lower than the amount proposed by Idaho Power is because the Company's proposed adjustment, when combined with the seasonal adjustment already being applied, would create an extremely wide range of prices. For example, for a 20-year levelized contract, the minimum price would be \$41.11 during light load hours in the spring and the maximum price would be \$81.08 in heavy load hours during the summer. This is nearly a two-fold difference in price. Staff believes that the daily shape adjustment, at least initially, should be somewhat conservative.

In comments submitted in Case No. AVU-E-06-4 in which a daily shape adjustment was adopted for Avista, Staff expressed several concerns. One of the concerns was that a daily shape adjustment could introduce greater uncertainty in the monthly payments wind generators would receive because many wind generators have no way of accurately knowing how many kilowatt-hours their project will produce in on-peak vs. off-peak hours. Another concern raised by Staff was the need for hourly metering capability at all future projects. Staff's final concern was that adoption of a daily shape adjustment introduces additional complexity into an already fairly complex system of avoided cost rates.

While those concerns are equally valid in this case, Staff still believes the advantages of a daily shape adjustment outweigh the disadvantages. Staff is supportive of the concept of a daily shape adjustment because, although only approximate, it more closely matches avoided cost rates to the true value of power at the time of delivery. Staff therefore recommends that a daily shape adjustment be approved, but that the amount of the adjustment be \$7.28 rather than the \$11.63 proposed by Idaho Power. Staff further recommends that the daily shape adjustment be a requirement for all future QFs with Idaho Power contracts. Staff's proposed changes to the published rates to reflect the daily shape adjustment are reflected in Attachment 2.

Disaggregation of Large QFs Into Smaller Projects

Wind projects are unique from other generation technologies because they normally consist of multiple turbines, each with its own generator, often scattered over large areas. Because of this characteristic, wind projects capable of generating more than 10 aMW per month can choose to create multiple legal entities to reconfigure themselves into multiple smaller

projects in order to qualify for the historically higher published avoided cost rates. To address this concern, Idaho Power proposes to clarify its rules for published rate eligibility to preclude disaggregation. Idaho Power states that the disaggregation issue was recently addressed in the PURPA avoided cost rate proceedings before the Public Utility Commission of Oregon (Docket No. UM-1129). The parties to that proceeding, the Company states, settled the disaggregation issue by negotiating a stipulation, which was approved by the parties and by the Oregon PUC. Idaho Power submits a proposed rule set forth in Petition Attachment 2 proposing language similar to that approved in Oregon. The proposed rule effectively would limit QFs with common ownership from being located closer than five miles of each other¹.

Staff agrees in principle with the disaggregation rule proposed by Idaho Power for published rate eligibility. Large projects should, Staff believes, have project specific rates that recognize the generation characteristics of each project individually. However, Staff is concerned that projects will simply find even more creative ownership arrangements in the future that will render the proposed rule ineffective. In a production request, Staff inquired about the likely effect on existing projects if the definition had been in place, since many wind projects are clustered in the same area. The Company responded that it "... cannot not say for certain that some existing wind developments might have been precluded from obtaining contracts under the proposed definition." Idaho Power also went on to say "Of course, if the definition had been in place before the 18 wind FESAs [Firm Energy Sales Agreements] were signed, Idaho Power expects that the wind QFs could have been restructured to avoid any problem with the definition."

Because the effectiveness of the proposed rule is so much in question, Staff recommends that it not be approved. Staff believes it would be bad policy to adopt a new rule if there are serious doubts from the beginning about whether it will actually achieve its intended objective.

RECOMMENDATIONS

Staff recommends that a daily shape adjustment be approved, but that the amount of the adjustment be \$7.28 rather than the \$11.63 proposed by Idaho Power. Staff further recommends that the daily shape adjustment be a requirement for all future QFs with Idaho Power contracts.

Staff does not recommend approval of Idaho Power's proposal to clarify its rules for published rate eligibility to preclude disaggregation. Staff believes that project developers will

¹ Compare FERC "same site" approach 18CFR § 292.204 (a)(2)..."within one mile".

devise ways to circumvent the proposed rules, making them ineffective in accomplishing their intended objective.

Respectfully submitted this 23rd day of March 2007.

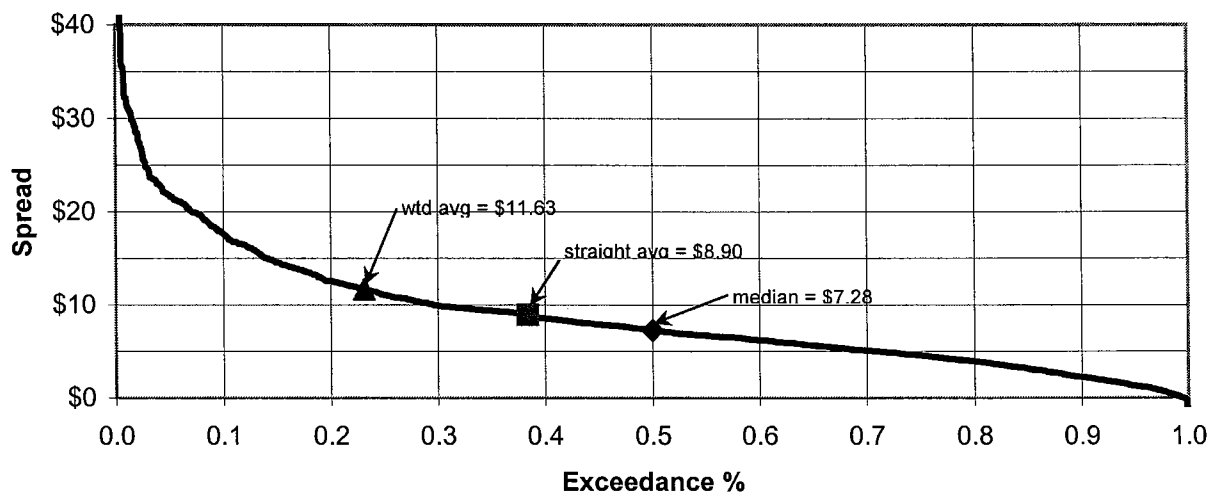
A handwritten signature in black ink, appearing to read "Scott D. Woodbury", written over a horizontal line.

Scott Woodbury
Deputy Attorney General

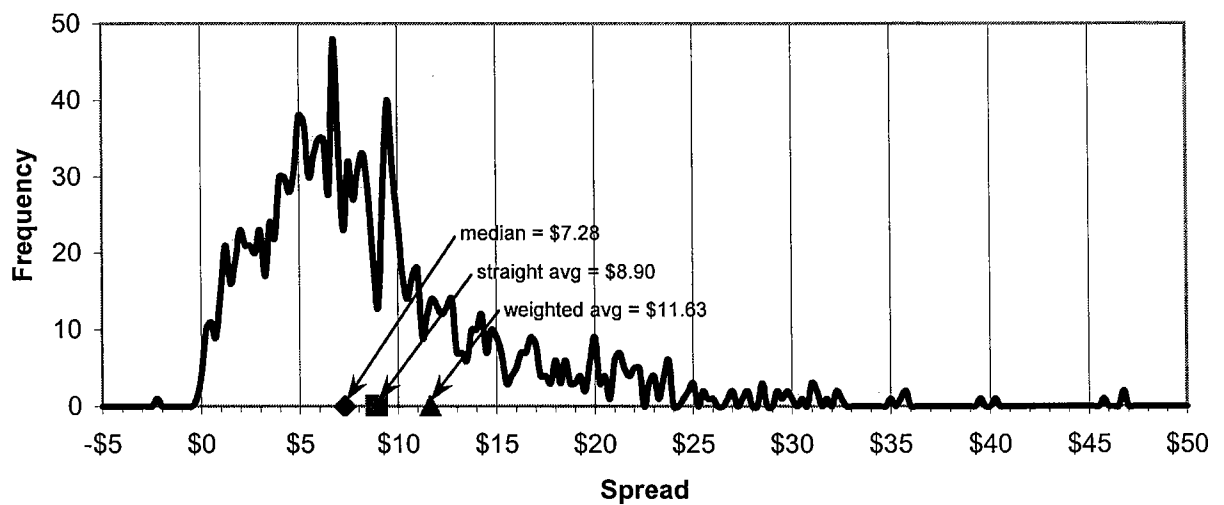
Technical Staff: Rick Sterling

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Price Spread between HLH and LLH



Price Spread Between HLH and LLH



IDAHO POWER COMPANY
 AVOIDED COST RATES FOR NON-FUELED PROJECTS
 TEN AVERAGE MEGAWATTS OR SMALLER

Seasonal Factors	
Season 1	73.50% (Applied to March, April and May)
Season 2	120.00% (Applied to July, August, November and December)
Season 3	100.00% (Applied to June, September, October, January and February)

Non-Levelized Rate Structure												
Non Levelized Price				Season 1 pricing (73.50%)				Season 2 pricing (120.00 %)				Season 3 pricing (100.00 %)
Heavy and Light Load hour differential												

IDAHO POWER COMPANY
 AVOIDED COST RATES FOR NON-FUELED PROJECTS
 TEN AVERAGE MEGAWATTS OR SMALLER

Seasonal Factors									
Season 1	73.50%	(Applied to March, April and May)							
Season 2	120.00%	(Applied to July, August, November and December)							
Season 3	100.00%	(Applied to June, September, October, January and February)							

Levelized Rate Structure Project On-line in 2007																
Levelized Price				Season 1 pricing (73.50%)				Season 2 pricing (120.00 %)				Season 3 pricing (100.00 %)				
Year	Flat Price (PUC 29646)	Heavy Load Hour Price	Light Load Hour Price	Flat Price	Heavy Load Hour Price	Light Load Hour Price	Flat Price	Heavy Load Hour Price	Light Load Hour Price	Flat Price	Heavy Load Hour Price	Light Load Hour Price	Flat Price	Heavy Load Hour Price	Light Load Hour Price	
1	52.69	55.93	48.65	38.72	41.11	35.76	63.22	67.12	58.38	52.69	55.93	48.65	62.40	65.64	58.36	
2	53.27	56.51	49.23	39.15	41.54	36.18	63.92	67.81	59.08	53.27	56.51	49.23	63.40	66.64	59.04	
3	53.85	57.09	49.81	39.58	41.96	36.61	64.62	68.51	59.77	53.85	57.09	49.81	64.32	67.34	59.59	
4	54.42	57.66	50.38	40.00	42.38	37.03	65.30	69.19	60.45	54.42	57.66	50.38	65.04	68.04	60.14	
5	54.98	58.22	50.94	40.41	42.79	37.44	65.98	69.87	61.13	54.98	58.22	50.94	65.70	68.74	60.70	
6	55.54	58.78	51.50	40.82	43.20	37.85	66.64	70.53	61.80	55.54	58.78	51.50	66.36	69.46	61.30	
7	56.09	59.33	52.05	41.22	43.60	38.25	67.30	71.19	62.45	56.09	59.33	52.05	67.02	70.12	61.90	
8	56.63	59.87	52.59	41.62	44.00	38.65	67.95	71.84	63.10	56.63	59.87	52.59	67.68	70.76	62.50	
9	57.16	60.40	53.12	42.01	44.39	39.04	68.59	72.48	63.74	57.16	60.40	53.12	68.30	71.30	63.10	
10	57.68	60.92	53.64	42.39	44.78	39.43	69.22	73.10	64.37	57.68	60.92	53.64	68.92	71.92	63.70	
11	58.19	61.43	54.15	42.77	45.15	39.80	69.83	73.72	64.98	58.19	61.43	54.15	69.54	72.54	64.30	
12	58.70	61.94	54.66	43.14	45.52	40.17	70.44	74.33	65.59	58.70	61.94	54.66	70.16	73.16	64.90	
13	59.19	62.43	55.15	43.51	45.89	40.54	71.03	74.92	66.19	59.19	62.43	55.15	70.78	73.78	65.50	
14	59.68	62.92	55.64	43.87	46.25	40.90	71.62	75.51	66.77	59.68	62.92	55.64	71.40	74.40	66.10	
15	60.16	63.40	56.12	44.22	46.60	41.25	72.19	76.08	67.34	60.16	63.40	56.12	72.02	75.02	66.70	
16	60.63	63.87	56.59	44.56	46.94	41.59	72.75	76.64	67.90	60.63	63.87	56.59	72.64	75.24	67.30	
17	61.08	64.32	57.04	44.90	47.28	41.93	73.30	77.19	68.45	61.08	64.32	57.04	73.26	75.86	67.90	
18	61.53	64.77	57.49	45.23	47.61	42.26	73.84	77.73	68.99	61.53	64.77	57.49	73.88	76.40	68.50	
19	61.97	65.21	57.93	45.55	47.93	42.58	74.36	78.25	69.52	61.97	65.21	57.93	74.40	76.94	69.10	
20	62.40	65.64	58.36	45.86	48.24	42.89	74.88	78.77	70.03	62.40	65.64	58.36	75.00	77.46	69.70	

IDAHO POWER COMPANY
 AVOIDED COST RATES FOR NON-FUELED PROJECTS
 TEN AVERAGE MEGAWATTS OR SMALLER

Seasonal Factors	
Season 1	73.50% (Applied to March, April and May)
Season 2	120.00% (Applied to July, August, November and December)
Season 3	100.00% (Applied to June, September, October, January and February)

Levelized Rate Structure Project On-line in 2008															
Levelized Price				Season 1 pricing (73.50%)				Season 2 pricing (120.00 %)				Season 3 pricing (100.00 %)			
Year	Heavy and Light Load hour differential			Flat Price (PUC 29646)	Heavy Load Hour Price	Light Load Hour Price	Flat Price	Heavy Load Hour Price	Light Load Hour Price	Flat Price	Heavy Load Hour Price	Light Load Hour Price			
	\$7.28	\$3.24	(\$4.04)												
1	53.90	57.14	49.86	39.62	42.00	36.65	39.62	42.00	36.65	64.68	68.57	59.83	53.90	57.14	49.86
2	54.50	57.74	50.46	40.06	42.44	37.09	40.06	42.44	37.09	65.40	69.29	60.55	54.50	57.74	50.46
3	55.09	58.33	51.05	40.49	42.87	37.52	40.49	42.87	37.52	66.11	69.99	61.26	55.09	58.33	51.05
4	55.67	58.91	51.63	40.92	43.30	37.95	40.92	43.30	37.95	66.81	70.69	61.96	55.67	58.91	51.63
5	56.25	59.49	52.21	41.34	43.72	38.37	41.34	43.72	38.37	67.50	71.39	62.65	56.25	59.49	52.21
6	56.82	60.06	52.78	41.76	44.14	38.79	41.76	44.14	38.79	68.18	72.07	63.34	56.82	60.06	52.78
7	57.38	60.62	53.34	42.17	44.55	39.20	42.17	44.55	39.20	68.85	72.74	64.01	57.38	60.62	53.34
8	57.93	61.17	53.89	42.58	44.96	39.61	42.58	44.96	39.61	69.52	73.40	64.67	57.93	61.17	53.89
9	58.47	61.71	54.43	42.98	45.36	40.01	42.98	45.36	40.01	70.17	74.06	65.32	58.47	61.71	54.43
10	59.01	62.25	54.97	43.37	45.75	40.40	43.37	45.75	40.40	70.81	74.70	65.96	59.01	62.25	54.97
11	59.53	62.77	55.49	43.76	46.14	40.79	43.76	46.14	40.79	71.44	75.33	66.59	59.53	62.77	55.49
12	60.05	63.29	56.01	44.14	46.52	41.17	44.14	46.52	41.17	72.06	75.95	67.21	60.05	63.29	56.01
13	60.56	63.80	56.52	44.51	46.89	41.54	44.51	46.89	41.54	72.67	76.56	67.82	60.56	63.80	56.52
14	61.06	64.30	57.02	44.88	47.26	41.91	44.88	47.26	41.91	73.27	77.16	68.42	61.06	64.30	57.02
15	61.55	64.79	57.51	45.24	47.62	42.27	45.24	47.62	42.27	73.85	77.74	69.01	61.55	64.79	57.51
16	62.02	65.26	57.98	45.59	47.97	42.62	45.59	47.97	42.62	74.43	78.32	69.58	62.02	65.26	57.98
17	62.49	65.73	58.45	45.93	48.31	42.96	45.93	48.31	42.96	74.99	78.88	70.14	62.49	65.73	58.45
18	62.95	66.19	58.91	46.27	48.65	43.30	46.27	48.65	43.30	75.54	79.43	70.69	62.95	66.19	58.91
19	63.40	66.64	59.36	46.60	48.98	43.63	46.60	48.98	43.63	76.08	79.97	71.23	63.40	66.64	59.36
20	63.84	67.08	59.80	46.92	49.30	43.95	46.92	49.30	43.95	76.60	80.49	71.76	63.84	67.08	59.80

IDAHO POWER COMPANY
 AVOIDED COST RATES FOR NON-FUELED PROJECTS
 TEN AVERAGE MEGAWATTS OR SMALLER

Seasonal Factors	
Season 1	73.50% (Applied to March, April and May)
Season 2	120.00% (Applied to July, August, November and December)
Season 3	100.00% (Applied to June, September, October, January and February)

Levelized Rate Structure Project On-line in 2009													
Levelized Price				Season 1 pricing (73.50%)				Season 2 pricing (120.00 %)				Season 3 pricing (100.00 %)	
Year	Heavy and Light Load hour differential			Flat Price (JPUC 29646)	Heavy Load Hour Price	Light Load Hour Price	Flat Price	Heavy Load Hour Price	Light Load Hour Price	Flat Price	Heavy Load Hour Price	Light Load Hour Price	
		\$7.28											
1				55.14	58.38	51.10	40.53	42.91	37.56	66.17	70.06	61.32	55.14
2				55.75	58.99	51.71	40.98	43.36	38.01	66.90	70.79	62.05	55.75
3				56.36	59.60	52.32	41.42	43.80	38.46	67.63	71.52	62.78	56.36
4				56.96	60.20	52.92	41.86	44.24	38.90	68.35	72.23	63.50	56.96
5				57.54	60.78	53.50	42.30	44.68	39.32	69.05	72.94	64.20	57.54
6				58.13	61.37	54.09	42.72	45.10	39.76	69.75	73.64	64.91	58.13
7				58.70	61.94	54.66	43.14	45.53	40.18	70.44	74.33	65.59	58.70
8				59.27	62.51	55.23	43.56	45.94	40.59	71.12	75.01	66.28	59.27
9				59.82	63.06	55.78	43.97	46.35	41.00	71.79	75.67	66.94	59.82
10				60.37	63.61	56.33	44.37	46.75	41.40	72.44	76.33	67.60	60.37
11				60.91	64.15	56.87	44.77	47.15	41.80	73.09	76.98	68.24	60.91
12				61.44	64.68	57.40	45.16	47.54	42.19	73.72	77.61	68.88	61.44
13				61.96	65.20	57.92	45.54	47.92	42.57	74.35	78.23	69.50	61.96
14				62.46	65.70	58.42	45.91	48.29	42.94	74.96	78.85	70.10	62.46
15				62.96	66.20	58.92	46.28	48.66	43.31	75.56	79.44	70.70	62.96
16				63.45	66.69	59.41	46.64	49.02	43.67	76.14	80.03	71.29	63.45
17				63.93	67.17	59.89	46.99	49.37	44.02	76.72	80.61	71.87	63.93
18				64.40	67.64	60.36	47.34	49.72	44.36	77.28	81.17	72.43	64.40
19				64.86	68.10	60.82	47.67	50.05	44.70	77.83	81.72	72.98	64.86
20				65.31	68.55	61.27	48.00	50.38	45.03	78.37	82.26	73.52	65.31

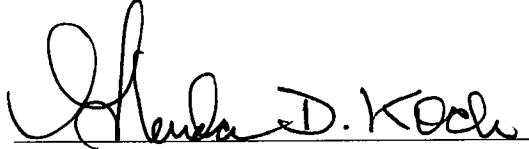
CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS **23RD** DAY OF MARCH 2007, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-07-04, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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SECRETARY