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IDAHO PUBLIC UTILITIES COMMISSION

BARTON L. KLINE
Senior Attorney

September 10, 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-07-15
IN THE MATTER OF IDAHO POWER'S PETITION TO MODIFY THE
METHODOLOGY FOR DETERMINING FUEL COSTS USED TO
ESTABLISH PUBLISHED RATES FOR PURPA QUALIFYING
FACILITIES

Dear Ms. Jewell:

Please find enclosed for filing an original and seven (7) copies of Idaho Power Company's Petition for 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

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER'S)
PETITION TO MODIFY THE) CASE NO. IPC-E-07-15
METHODOLOGY FOR DETERMINING)
FUEL COSTS USED TO ESTABLISH) PETITION
PUBLISHED RATES FOR PURPA)
QUALIFYING FACILITIES)

COMES NOW, Idaho Power Company ("Idaho Power" or the "Company") and hereby requests that the Commission issue its order modifying the methodology currently used to determine the fuel costs that are used to compute published avoided cost rates.

The Company's request is based on the following:

BACKGROUND

History of the Current Methodology for Determining Fuel Costs Used to Set Published QF Rates.

1. Sections 201 and 210 of the Public Utility Regulatory Policies Act of 1978 (PURPA) and pertinent regulations of the Federal Energy Regulatory Commission (FERC) require regulated electric utilities to purchase power from qualifying generation facilities

(QFs) at avoided costs. Avoided costs are the costs the electric utility can avoid by purchasing energy generated by a QF rather than generating the energy itself or purchasing the energy in the wholesale market.

2. The Commission has historically set avoided cost rates by estimating the fixed and variable costs of a hypothetical fossil fuel-fired generation facility and using those estimated costs as a measure of the costs Idaho jurisdictional electric utilities could avoid by purchasing QF energy. This methodology for estimating avoided costs is commonly referred to as the surrogate avoided resource (SAR) methodology. The current SAR is a natural gas-fired combined cycle combustion turbine. For QF projects generating less than 10 average MWh, the avoided cost rates determined by the SAR methodology are commonly referred to as the published rates.

3. One of the critical components of the SAR methodology is the estimated cost of the natural gas that will fuel the SAR. In Order No. 29124, issued on September 26, 2002 in Case No. GNR-E-02-1, the Commission established the methodology currently used to compute the fuel cost component of the SAR methodology.¹

4. The method the Commission adopted in Order No. 29124 to calculate the fuel cost component starts with an arithmetic average of the nominal prices for natural gas for the first three years of the Northwest Power Planning and Conservation Council's (NWPPCC) median 20 year forecast of natural gas prices. In Order No. 29124, the first three years of the twenty (20) year forecast were 2000 through 2002. These three years consist of the current year's forecasted price, plus the previous two years forecasted

¹ In 2002, Idaho Power filed a Motion to Stay Entitlement to Published Rates, which motion was the genesis of Case No. GNR-E-02-1. In that case the Commission granted Idaho Power's request for a stay while it considered whether the various components that make up the SAR methodology should be revised. In this petition, Idaho Power is *not* requesting that the Commission stay the determination of new published rates when the NWPPCC establishes a final natural gas forecast.

prices. The average three year price set in 2002 was \$3.75. The SAR methodology then escalates that three year average natural gas price at a uniform percent per year over 20 years. The escalation rate is also calculated from the NWPC 20 year natural gas forecast. In 2002 the escalation rate was 2.6%.

5. In 2004, the NWPC revised the 20 year natural gas price forecast the Commission had utilized in setting the published rates in Order No. 29124. Based on this revised NWPC natural gas price forecast, in Order No. 29646, the Commission revised the fuel cost component for the SAR methodology utilizing the average of the NWPC's natural gas price forecast for the three year period 2004 through 2006. This change in the three year average price revised the fuel cost component in the SAR methodology to \$5.10. The fuel escalation rate was changed to 2.30%. As a result of these two changes, in 2004, the levelized published rate for a QF project estimated to come on line in 2007 (20 year term) went from 53.67 Mills/Kwh in 2002 to 62.40 Mills/Kwh in 2004.

THE CURRENT METHODOLOGY FOR SETTING THE FUEL COST COMPONENT NEEDS TO BE CHANGED

Use of the Current Method to Set the Fuel Cost Component in the SAR Methodology Will Result in Published Avoided Cost Rates that are Not Representative of the Costs Idaho Power is Likely to Avoid by Purchasing Energy From QFs.

6. On July 31, 2007 the NWPC released a draft of its next forecast of natural gas prices. Attachment 1 is a graph prepared by Idaho Power showing the year-by-year 20 year forecast of natural gas prices in the 2007 NWPC median case draft forecast.²

² Using the current method for determining the fuel cost escalation rate for the SAR Methodology, and the assumptions in the NWPC 2007 draft forecast, the calculated escalation rate will be 1.10% if the NWPC's draft forecast is adopted as the final forecast.

7. Attachment 2 graphically overlays the assumed cost of fuel for the SAR that is calculated using the current SAR methodology onto the same NWPCC forecast shown on Attachment 1.

8. Attachment 2 shows the extreme divergence between the NWPCC's forecast of natural gas prices and the assumed cost of fuel for the SAR. This difference will result in artificially high published rates unless the Commission revises the current methodology for establishing fuel costs in the SAR methodology.

9. The principal reason for the divergence between the assumed cost of fuel for the SAR under the current methodology and the NWPCC's 20-year forecast of natural gas prices is the use of the three year average starting point and the linear escalation from that starting point. By starting the fuel cost assumption at the high end of the range of prices shown in the NWPCC forecast and escalating prices from that point in a linear profile, the current methodology fails to recognize the expected downward trend in fuel prices apparent in the NWPCC's 20 year forecast. Failing to recognize the non-linear shape of the NWPCC's 2007 forecast will cause the published rates to be much higher than they otherwise would be.

IDAHO POWER'S PROPOSAL

10. In this Petition, Idaho Power is not requesting that the Commission examine or revise any of the non-fuel related components that make up the SAR methodology. The Company recognizes that revisions to the fixed cost assumptions and other non-fuel related components of the SAR methodology are likely to require considerable analysis and could engender factual disagreements that are more likely to require resolution in a technical proceeding before the Commission. Idaho Power does not desire to delay an update of the published rates by injecting these non-fuel factors into this proceeding. Idaho

Power believes that a limited review of just the fuel cost component of the currently approved methodology should be relatively straight-forward.

11. Idaho Power proposes that the Commission utilize the average of all 20 years of the NWPCC's final 2007 median 20 year natural gas price forecast as the fuel cost component in the SAR methodology. Because Idaho Power proposes to use the 20 year average price, no escalation forecast is needed. Attachment 3, shows how this average fuel cost assumption compares to the year-by-year NWPCC 2007 20 year natural gas price forecast values and the fuel cost assumption calculated under the current SAR methodology.

12. Attachment No. 4 is a table that compares three sets of published avoided cost rates. All three sets of rates use the currently approved SAR methodology assumptions for all non-fuel components. In the first two sets, the assumed SAR fuel costs are computed using the three year average starting point and the linear escalation profile. The first set of rates are the current published avoided cost rates. The second set of rates are the published avoided cost rates that will go into effect if the NWPCC accepts its 2007 draft natural gas price forecast as its final forecast and the 3 year average natural gas price method remains unchanged. In the third set of rates, the fuel cost component is computed using the average of the 20 years of natural gas prices from the NWPCC's draft 2007 median gas price forecast. Idaho Power urges the Commission to adopt the 20 year average price as the SAR fuel cost component when the NWPCC issues its final 2007 median case natural gas price forecast.

13. As previously noted, Idaho Power does not propose to adjust any of the non-fuel assumptions in the currently approved SAR methodology. Idaho Power believes its proposed methodology is preferable to the current methodology because use of the 20

year average fuel cost recognizes the non-linear profile of the NWPC's 2007 forecast. Use of the 20 year average also reduces the significant front-end loading of assumed fuel costs created by use of the current methodology.

14. Idaho Power believes that this Petition presents a limited policy question to the Commission. The Company does not believe that its proposal presents a factual dispute requiring a technical proceeding to effectuate a resolution. The Company proposes to retain the fundamental SAR methodology. The assumptions for all components of the SAR methodology remain the same except for the fuel cost assumption. All of the data required to analyze Idaho Power's proposal to change the fuel cost assumption are contained in the NWPC's 2007 natural gas price forecast and the current SAR methodology model. The Company is not requesting a stay of the implementation of new published rates while this case is pending. As a result, the Company believes that the Commission could expeditiously process this Petition under modified procedure.

15. Communications regarding this Petition should be addressed to:

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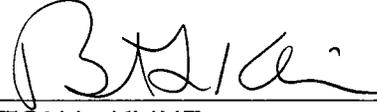
Ric Gale, Vice President
Regulatory Affairs
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Based on the foregoing, Idaho Power respectfully requests that the Commission issue its Order:

1. Changing the method for determining the fuel cost component of the SAR methodology to utilize the average of all 20 years set out in the NWPC's 2007 final median forecast of natural gas prices rather than the escalated average of the first three years of the same forecast; and

2. Processing this Application under modified procedure, that is by written comments or briefs rather than by means of a technical hearing.

Respectfully submitted this 10th day of September 2007.



BARTON L. KLINE
Attorney for Idaho Power Company

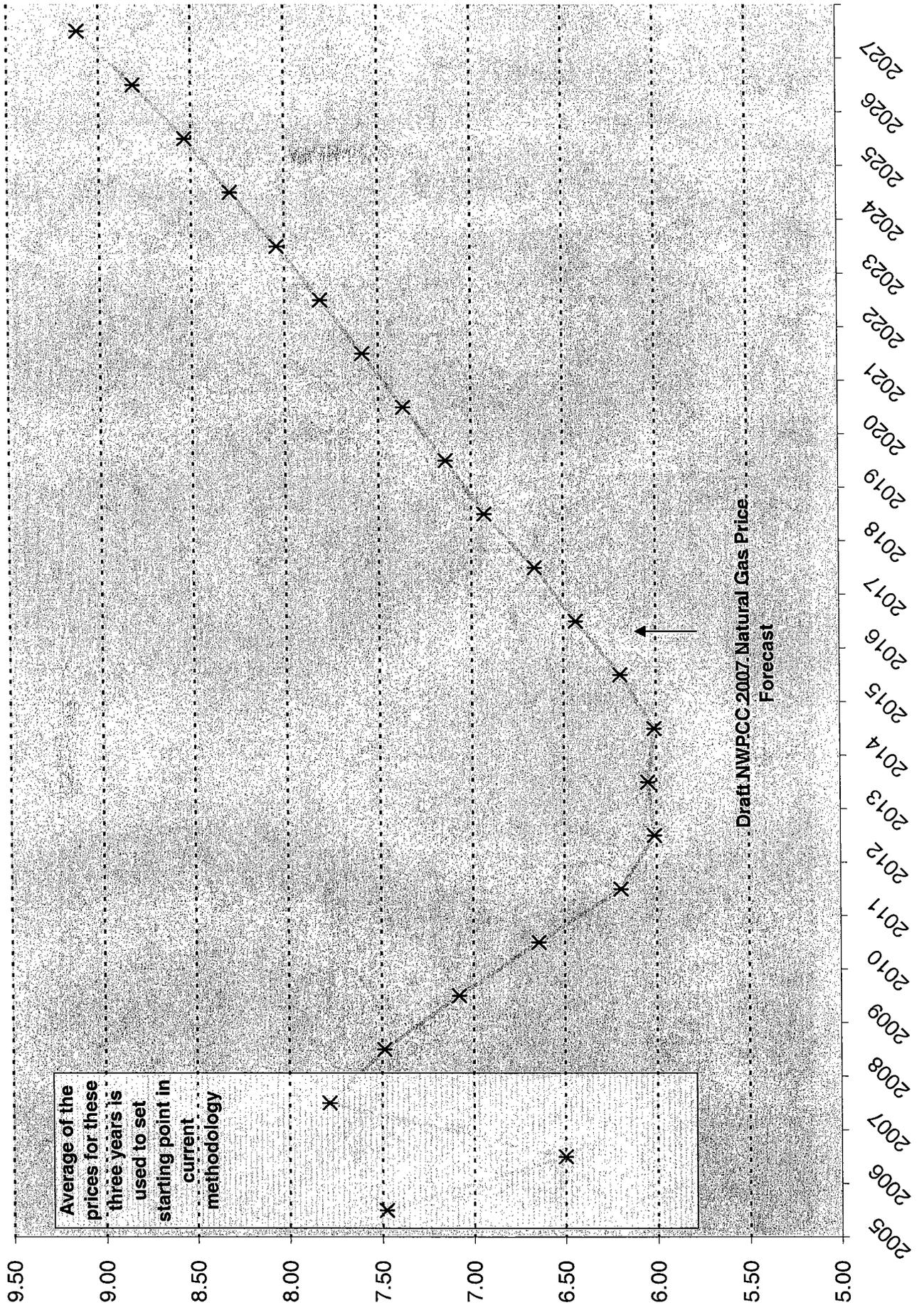
BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. IPC-E-07-15

IDAHO POWER COMPANY

ATTACHMENT 1

Idaho Power Attachment #1



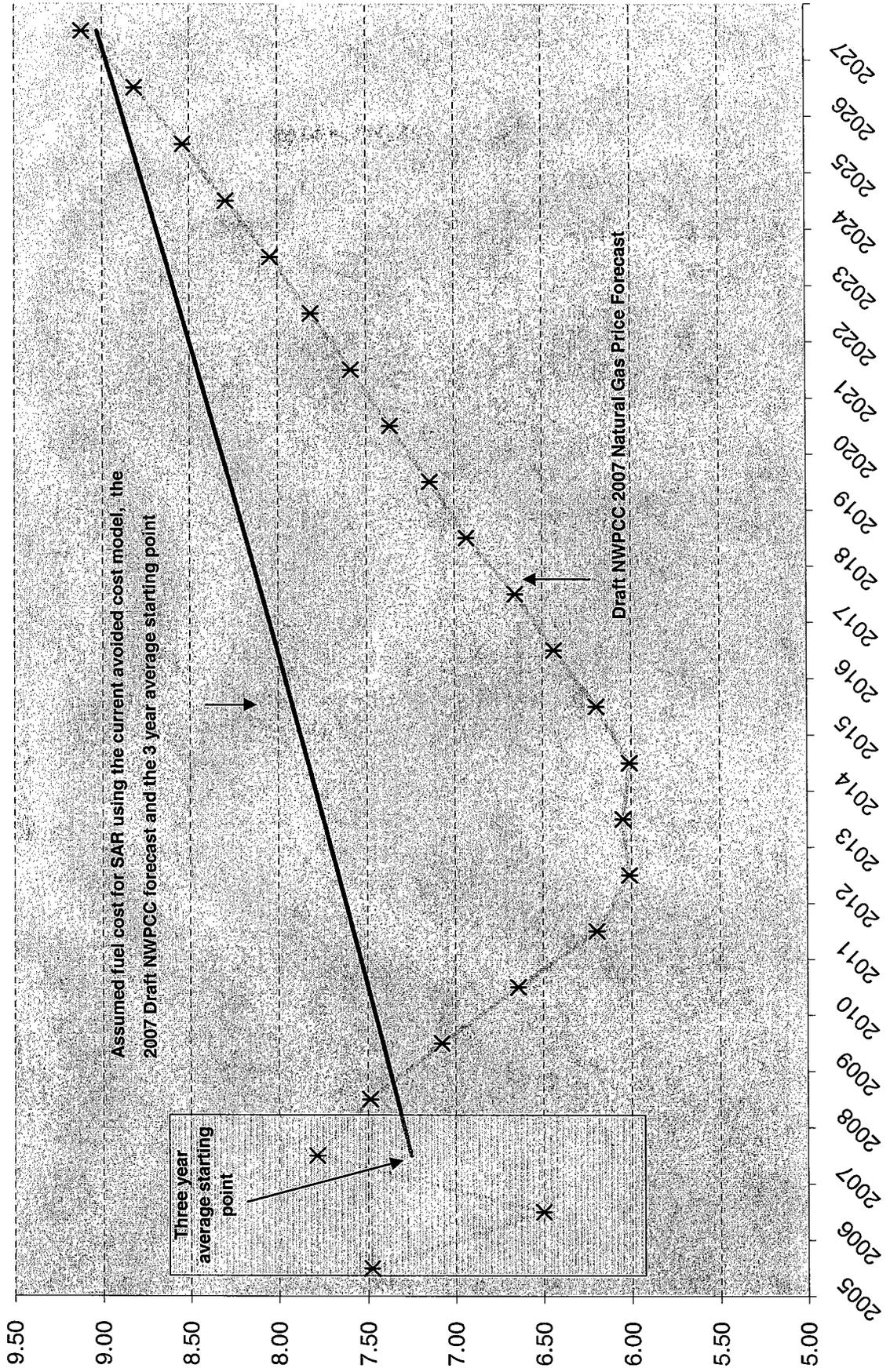
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IDAHO POWER COMPANY

ATTACHMENT 2

Idaho Power Attachment #2



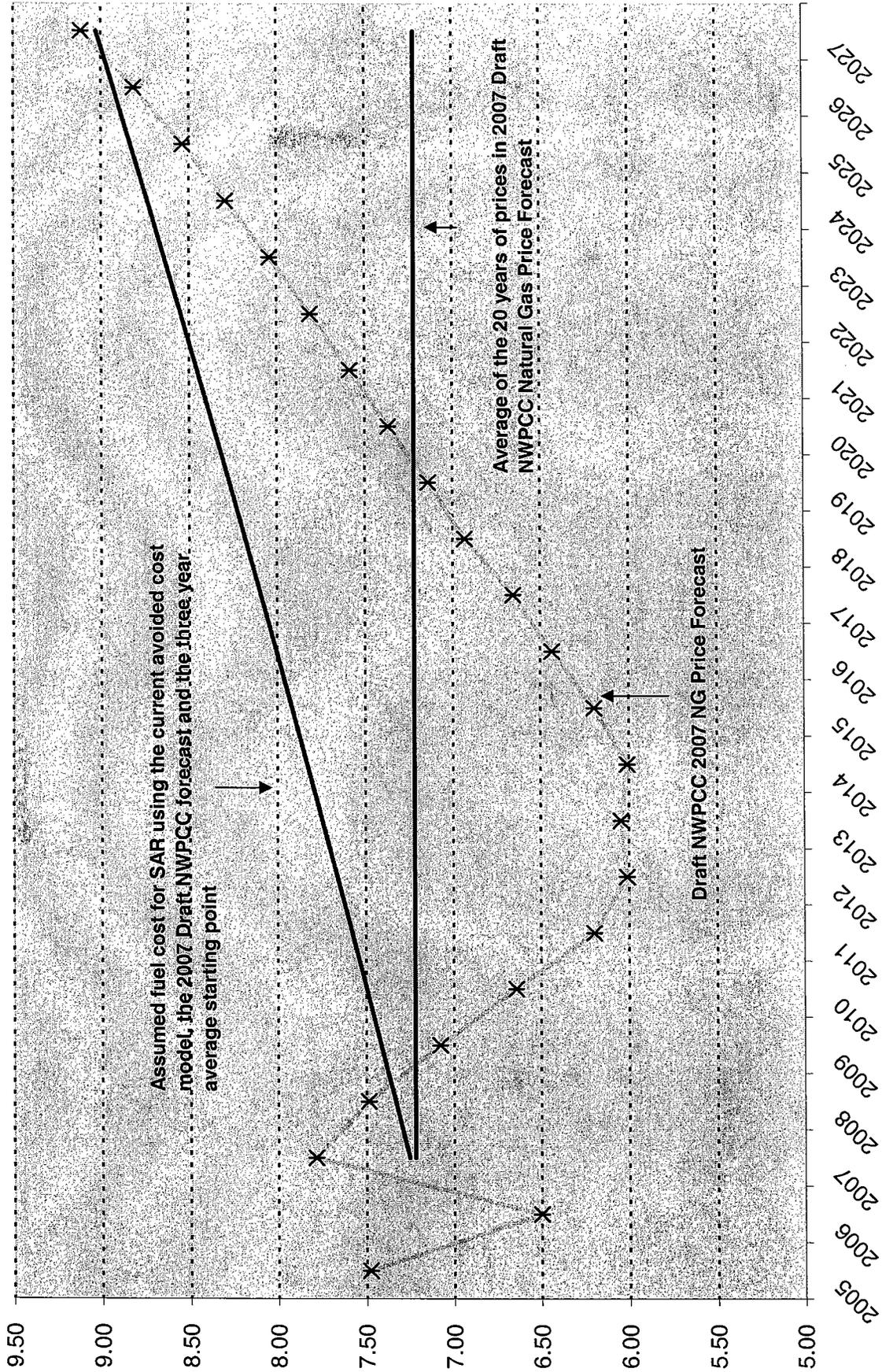
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IDAHO POWER COMPANY

ATTACHMENT 3

Idaho Power Attachment #3



BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

CASE NO. IPC-E-07-15

IDAHO POWER COMPANY

ATTACHMENT 4

Using NWPCC Gas Forecast			
PUBLISHED RATE CALCULATION MODEL	Current Pricing	Update Fuel Only using established method	Update Fuel Only using a 20yr avg
	NWPCC 2004 fuel 3 yr avg 2002-2004	NWPCC 2007 Fuel 3 yr avg 2005-2007	NWPCC 2007 fuel 20yr avg 2008-2027
	IPCO DATA	IPCO DATA	IPCO DATA
FIRST DEFICIT YEAR:	2002	2002	2002
SURPLUS ENERGY COST (mil/kWh):	N/A	N/A	N/A
SURPLUS COST BASE YEAR:	1994	1994	1994
"SAR" PLANT LIFE (YEARS):	30	30	30
"SAR" PLANT COST (\$/kW):	\$679	\$679	\$679
BASE YEAR OF "SAR" COST:	2000	2000	2000
"SAR" CAPACITY FACTOR (%):	92%	92%	92%
HEAT RATE (BTU/KWH):	7,100	7,100	7,100
UTLTY WT'D COST OF CAPITAL (%):	7.852%	7.852%	7.852%
RATEPAYER DISCOUNT RATE (%):	7.852%	7.852%	7.852%
"SAR" FIXED O&M (\$/kW):	\$10.70	\$10.70	\$10.70
"SAR" VARIABLE O&M (mil/kWh):	2.80	2.80	2.80
CURRENT YEAR GAS PRICE (\$/MMBTU):	\$5.10	\$7.25	\$7.22
CURRENT YEAR FUEL COST (mil/kWh):	36.21	51.48	51.26
BASE YEAR, O&M EXPENSES:	2000	2000	2000
ESCALATION RATE; "SAR" (%):	2.10%	2.10%	2.10%
ESCALATION RATE; SURPLUS (%):	N/A	N/A	N/A
ESCALATION RATE; O&M (%):	2.70%	2.70%	2.70%
ESCALATION RATE; FUEL (%):	2.30%	1.10%	0.00%
ADJUSTABLE PORTION (mil/kWh):	0.00	0.00	0.00
CAPITAL CARRYING CHARGE (%):	11.517%	11.517%	11.517%
LEVEL CARRYING COST (mil/kWh):	9.91	9.91	9.91
"TILTING" RATE (%):	2.10%	2.10%	2.10%
TYPE OF RATES:	NON-FUELED	NON-FUELED	NON-FUELED
Current YEAR:	2004	2007	2007
20-yr Levelized rate, on-line date:			
2007	62.40	72.22	67.77
2008	63.84	73.22	68.15
2009	65.31	74.23	68.54

NWPCC Natural Gas Forecast		
Year	2004	Draft 2007
2000	3.77	
2001	4.71	
2002	3.13	
2003	5.86	Avg 5.10
2004	6.30	
2005	6.28	7.48
2006	6.12	Avg 7.25
2007	6.01	7.79
2008	5.84	7.49
2009	5.68	7.08
2010	5.52	6.64
2011	5.62	6.20
2012	5.71	6.01
2013	5.81	6.05
2014	5.91	6.01
2015	6.01	6.20
2016	6.20	6.43
2017	6.40	6.65
2018	6.62	6.93
2019	6.83	7.14
2020	7.05	7.37
2021	7.28	7.59
2022	7.51	7.81
2023	7.77	8.04
2024	8.02	8.29
2025	8.27	8.54
2026		8.82
2027		9.12
	2008 - 2027 Average	7.22