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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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**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**

Case No. **IPC-E-07-15**

IDAHO PUBLIC
UTILITIES COMMISSION

COMMENTS

Engineers Gary Seifert and Kurt Myers from the Idaho National Engineering Laboratory ("INL Engineers") and, pursuant to the Commissions' Notice of Petition dated September 27, 2007, submit the following Comments:

Introduction

In this proceeding (**Case No. IPC-E-07-15, or "15"**) the Petitioner, Idaho Power Company ("Idaho Power") asks the Commission to adopt a new method for calculation of gas prices in determination of avoided cost rates.

INL has a program as part of Wind Powering America, has direct goals in developing interest, providing outreach, and helping regional entities locate and categorize renewable energy resources in the Idaho, Nevada, Utah, Wyoming, Montana and Washington areas, has special interest in rural agricultural PURPA wind projects in the state of Idaho; and, accordingly has a direct and substantial interest in the proceeding.

For the reasons set forth below, INL Engineers recommend that the Petition of Idaho Power be denied.

Argument

Idaho Power's Proposal Only Addresses Change of One Variable.

This proposal is focused on addressing avoided cost changes based on one variable only, “the cost projections of natural gas” and does not address any of the other variable rate issues inherent in the cost of avoided power; essentially making this a “single issue rate case” which is not in the best interests of a fair and reasonable cost calculation. The last avoided costs were calculated with much lower fuel costs, and installed costs of facilities were approximately 50-75% lower than they are today. As an example, since that time period steel costs have grown nearly 300%, installed costs for concrete are up nearly 400%, motor fuel costs are up 225%, and copper prices are up over 300%. These price increases represent the overall increased capitalization requirements to place gas plants in operation and significantly impact avoided costs. While it is important to recalculate avoided costs and something we have been requesting for some time, this proposal does not provide a fair and reasonable basis for a 20 year change in rates and does not provide the Commission reasonable information to make a informed judgment.

**Idaho Power’s Proposal Would Create a De Facto Extension of the PURPA
Moratorium.**

The issuance of Order No. 29872 in Case No. IPC-E-05-22 in September of 2005 created a *de facto* moratorium on the development of PURPA projects larger than 100 kW and only projects that met “grandfathering” criteria contained in Order No. 29872 have been able to proceed. This moratorium (based on the 100 kw limit) was estimated to be in place less than nine (9) months, yet we are now in the third year.

The Commission has Case No. IPC-E-07-03 before it, where a Settlement Stipulation would allow the moratorium to be terminated. While this is good and we

support lifting of the moratorium, this proposal “15” combined with “03” would have the same effect as it directly and artificially reduces the value of avoided costs, effectively stifling PURPA projects. In general, that Settlement proposes an integration cost that would reduce avoided costs by about \$5-6.50 per Mwh. The present case process (“15”), if approved, would further reduce the avoided costs by \$4.50 per Mwh (See attachment 4 of IPC-E-07-15). These two together would impact future PURPA rates by \$9.50-11.00 per Mwh, resulting in an effective rate below the current published avoided cost rate for contracts with a 2007 on-line date. Based on interaction with the rural farmers, developers, equipment suppliers and financial representatives, INL concurs that the proposed process could have significant impact on the viability and constructability of PURPA projects in Idaho, further impacting depressed rural communities and with the practical impact of extending the de facto Moratorium.

INL Engineers respectfully recommend that after a two-year plus hiatus, the primary policy objective should be to re-start PURPA implementation in Idaho with subsequent rural community investment and vitalization. Further, using the proposed methodology to adjust only one variable element, natural gas forecast prices, would jeopardize that objective.

**Idaho Power’s Proposal is Untimely and inaccurate due to recent changes in
Natural Gas consumption and Power Generation.**

Recent developments after the forecast technical assessments were performed have the potential to derail this forecast and skew the results significantly. In late July, “U.S. Senate Majority Leader Harry Reid said Thursday that he’ll do *everything he can* to stop construction of three major coal-fired power plants in his home state of Nevada. Late

this summer, Utah's IPP3 900 MW plant lost support of California's LAWP and may be shelved and other plants operating off natural gas will be built to replace the needed power. Last week Kansas rejected permits on 1400 MW of Coal Powered plants based on carbon emissions and more regional plants are facing similar issues. Idaho just rejected a coal plant in Southern Idaho, yet there is insufficient gas availability to replace more than 50% of that amount of that power in Southern Idaho. IPCO's own IRP plans on new coal and if that growth has to change to natural gas, it will further increase regional pressure on natural gas prices. All of these regional electric load growths must still be met and all will increase consumption of intermountain gas supplies beyond what the referenced NWPPC forecast includes. While ocean shipped LNG shows promise for future gas supplies at lower costs, LNG terminals and facilities have not been permitted and construction would take many years as well, offering no significant relief during most of the projected life of these PURPA facilities and should not be a consideration in these discussions. To date, Wyoming appears to be able to permit coal power, but any new coal power is suspect. All of these recent changes and power plant permitting problems are just the proverbial tip of the Natural Gas consumption "ice berg," and the potential increases in prices as electric power plants veer away from coal to natural gas power and other alternate energy resources are concerning. Nuclear Power is a viable carbon free source of electrical power to reduce pressure on natural gas rates, but the time required to build and permit takes it from consideration in this case as the focus for this process ("15") is really the first 5 year projections combined with selection of inflation rates used.

It is not the INL Engineers' intent to question the NWPPC's forecast, rather to suggest that recent events should be addressed with the swing from new coal to new

combined cycle gas plants factored into projections before new avoided cost calculations are taken into account. Further, it is recommended that the IPCO "15" proposal be delayed until more typical projections with new increases are integrated into the forecasts. Not long ago 12\$ MBTU gas costs were rampant (50 – 100% higher than today's cost), which spurred development of regional fields and increased pipelines. While this helped bring down costs, production margins are not sufficient to replace many of the new planned intermountain and western USA coal power plants as load grows.

The NWPCC forecast shows a short term dip in forecasted costs, very similar to commodity economic projections. These similar dips are often indicative of different market pressures, which historically imply a drop in prices that is not indicative of a reduction of demand or an oversupply of natural gas. Rather, this forward curve could be interpreted to describes a very tight market that values gas today more than the promise to deliver that gas in the future. Further, in the context of commodity pricing history, as time moves forward, gas would likely increase to an inflation adjusted level that is similar to today's price. The only economic pressure preventing this inflationary increase would be significant reductions of demand or a large new fields being developed between now and when the price might drop. The converse is more likely as demand increases significantly faster than regional growth with a shift in coal to gas consumption at higher than NWPCC projections. The consumption and cost increases will serve to incentivize production of gas, but is not likely to reduce the gas rates that the ratepayers will endure. These market pressure tend to make long term wind PURPA projects with no fossil fuel uncertainty even more attractive.

Waiting until NWPCC adjusts their rates and reviews their inflation factors against regional influences (mostly driven by the environmental regulations and pressures of California and Nevada) appears to be a prudent next step in this step and impacts Idaho Powers Proposal.

While Idaho Power argues, as it did in CNR-E-02-1, that method produces a result Idaho Power believes to be too high, we disagree and are reminded that California's rate structures are impacting future power availability in the area and are already paying wind power rates much higher than those that Idaho Power is worried about. History is a great teacher and shows us that all western state economies are intertwined to a great extent and we would be prudent to learn from those lessons and take proactive steps now, rather than reactive measures after rates escalate.

Conclusion

We strongly support objectives that re-start PURPA implementation in Idaho with fair, reasonable, and well-vetted comprehensive rates. The current method of gas price calculation was adopted by the Commission based on an intensive process several years ago and sufficient justification has not been shown by Idaho Power to change the basis of the SAR forecasting methodology. Future avoided costs should be consistent and comprehensive and include all cost factors, including escalating material and construction costs.

This single-issue rate case process will place PURPA re-implementation in jeopardy and bring question on the validity of these rates. Further, waiting a few months and asking NWPCC to reconsider their forecast in light of all recent Coal Plant Permitting impacts in markets serving Idaho's utilities would seem appropriate to obtain

the best information available to assist the Commission in making informed decisions.

The Commission should enter its Order denying the Petition, or at least requesting

changes in the process to include these concerns and mitigating issues.