



I  
SUMMARY OF EXERGY'S POSITION

Upon review of the comments filed by the various entities, Exergy reiterates its position that Idaho Power's Petition ought to be denied and the Commission should update the natural gas forecast in the avoided cost calculation pursuant to the existing methodology for doing so. In the alternative, if Staff's methodology is adopted by the Commission then the natural gas price forecast should be based on the forecast Idaho Power is currently using in its pending general rate case.

II  
INITIAL PROCEDURAL ISSUE

The Commission issued its notice of Modified Procedure on September 27, 2007 in which it made clear that the deadline for comments was October 23, 2007. In that notice the Commission declared that "if comments or protests are filed within the deadline, the Commission will consider them..." Notice at p. 4. It should be noted by the Commission that Idaho Power's Reply Comments were not filed within the deadline set by the Commission for consideration in its deliberations. Nor did those comments seek leave of this Commission to file out of time comments. Indeed, Idaho Power's reply comments fail to identify the authority under which they were filed or which requires this Commission to include them in its deliberations. The status of Idaho Power's comments is unclear in light of its failure to adhere to the Commission's timeline.<sup>1</sup> Nevertheless, on the assumption that the Commission will be lenient with the Power Company and permit it to operate outside of the bounds that others must, Exergy addresses the issues raised by Idaho Power in its Reply Comments.

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<sup>1</sup> Striking them from the record would be an appropriate remedy.  
Exergy Development Group of Idaho LLC's Additional Comments IPC-E-07-15

Idaho Power now has the right to file Reply Comments in light of the Commission's Notice of Additional Comment Period. Exergy urges this Commission to permit ALL the same privilege as Idaho Power by being allowed the opportunity to file reply comments.

### III

#### RATEPAYER NEUTRALITY TEST HAS BEEN CONSISTENTLY VIOLATED

It is true, as observed by Idaho Power that PURPA requires this Commission to set avoided cost rates such that the ratepayers of the purchasing utility are "economically indifferent" as to whether the utility purchases from a QF or generates the same amount of energy itself.<sup>2</sup> The current methodology for incorporating new natural gas forecasts into the avoided cost rates has proven to be wrong every time. However it has proven to be wrong in favor of the ratepayers – not the small power producers.<sup>3</sup> This violates the concept of ratepayer neutrality, but to the benefit of the ratepayer not the QF developer. Among the reasons the methodology is wrong every time in favor of the ratepayers is the fact that it uses a very conservative forecast. Indeed the natural gas price forecast used for avoided cost purposes is not used by Idaho Power in its integrated resource plan. It uses a natural gas price forecast that predicts significantly higher natural gas prices than the forecast used for avoided cost purposes.

Since history shows that the current methodology is skewed in favor of the ratepayers, changing it to provide further subsidies to the ratepayers is illogical. It also violates the ratepayer neutrality concept cited by Idaho Power, however it violates it in favor of the ratepayers not the QFs.

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<sup>2</sup> Idaho Power Reply Comments, November 5, 2007. P. 4. ("Reply Comments")

<sup>3</sup> See the Comments of Idaho Windfarms, LLC in this docket pp 2-4 for a discussion of how the avoided cost rates are biased against the QF industry.  
Exergy Development Group of Idaho LLC's Additional Comments IPC-E-07-15

IV  
THIS COMMISSION HAS EXCLUSIVE JURISDICTION  
TO SET IDAHO POWER'S AVOIDED COST RATES

Idaho Power addresses Exergy's Comments beginning at page 11 of its Reply Comments. In its Comments Idaho Power misstates, obfuscates and misconstrues Exergy's arguments to bolster its own self-serving view of how avoided cost rates are calculated – and by whom.

First Idaho Power miss-states Exergy's position in such a way that it is able to make an argument that Exergy has overstepped the legal bounds for setting avoided cost rates:

Apparently, Exergy equates compliance with the State Energy Plan with maintaining the published rates at a level that is sufficient to make all QF projects economically attractive.

Reply Comments at p. 11, emphasis provided. Apparently, Idaho Power did not fully understand Exergy's Comments. Exergy did not assert anywhere in its comments the concept of making all (or any) QF projects economically attractive. Exergy is cognizant that this Commission is not permitted to engage in avoided cost ratemaking based on the economics of the QF industry.

What Idaho Power misconstrues and obfuscates is this Commission's role in setting those rates.

The very case cited by Idaho Power actually supports Exergy's comments and position in this docket. *Connecticut Light and Power Company*, FERC ¶ 61,012 does make clear that states may not set avoided cost rates higher than a utility's true avoided costs. However it also makes clear that it is the states, and not FERC and not even Idaho Power, that make the determination as to what a utility's true avoided costs are. In *Connecticut* the state had made a determination that the rates to be paid to a QF were higher than the utility's true avoided costs. FERC correctly ruled that such a rate violates basic tenants of PURPA, but it reiterated the role of the states in making that determination:

Accordingly, the Municipal Rate Statute at issue here cannot be applied to impose a rate exceeding avoided cost on sales by QFs, such as the Preston Facility, to electric utilities, such as CL&P, because such a rate would violate PURPA and this Commission's regulations under PURPA. However, whether the rates imposed by the Municipal Rate Statute (which are CL&P's retail rates) do or do not exceed avoided cost (which is determined by the state) is a matter of fact that in this case is best left to the appropriate state or judicial forum.

*Id.* at 16, emphasis provided.

Idaho Power asserts that the avoided cost methodology produces an avoided cost rate higher than its actual avoided costs. That is Idaho Power's opinion, nothing more. It is not fact and it is not subject to objective proof because it is based on a prediction of economic conditions twenty years into the future. Idaho Power's true avoided cost rates are what this Commission finds them to be based on a supportable record. The current methodology has produced avoided cost rates that some believe are too low and some believe are too high. The question is what this Commission finds to be a reasonable methodology when setting those rates. The current methodology has been found by this Commission to be both reasonable and workable. It has been adopted by this Commission and used multiple times without complaint by either the QF industry or the investor owned utilities. The fact that it now produces avoided cost rates that are higher than Idaho Power likes is not evidence sufficient to throw the current methodology out.

Idaho Power blatantly miss-states Exergy's argument regarding this Commission's obligations under PURPA and the newly adopted State Energy Plan:

Despite Exergy's urging, federal law does not permit the State of Idaho to artificially stimulate the development of QF resources by requiring the Commission to set QF purchase prices above avoided costs.

Reply Comments at p. 11, emphasis provided. Exergy did correctly point out that this Commission has an obligation under PURPA to "encourage" the development of the QF industry. Exergy also correctly pointed out that the State of Idaho's energy plan places the

highest priority on renewable energy development.<sup>4</sup> However, Exergy never asserted, despite Idaho Power's claim, that this Commission ought to be required to "set QF purchase prices above avoided costs." Such an assertion is blatantly in error and is only deserving of such consideration by this Commission as such.

What Exergy did point out is that when this Commission is confronted with competing methodologies for setting avoided cost rates, and when those competing methodologies produce reasonable results and can be supported on the record as producing rates that comply with PURPA, then this Commission IS OBLIGATED under federal law to select the methodology that encourages the development of QFs and IS OBLIGATED under the new State Energy Plan to select the methodology that first develops renewable energy projects. Ratemaking based on twenty year natural gas forecasts is at best a judgment call as to the validity of the hundreds of inputs and assumptions involved in making such a forecast - at worst it is nothing more than a shot in the dark.

The current methodology is a proven methodology that this Commission has found on several occasions to be reasonable. The proposed methodology, on the other hand, has never been tested, litigated or examined in open hearing. Its usefulness in setting reasonable avoided cost rates is therefore uncertain at best. What is certain however is that it produces a lower rate than the Commission's current methodology which does not satisfy the Commission's Federal obligation to encourage QF development and nor does it further the Commission's State obligation to put renewable projects at the top of the list of new generation in Idaho.

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<sup>4</sup> After conservation.

V  
IDAHO POWER USES A DIFFERENT – HIGHER –  
NATURAL GAS PRICE FORECAST FOR ITS GENERAL RATE CASE  
WHICH SHOULD BE USED WHEN SETTING ITS AVOIDED COST RATES

In its currently pending general rate case, IPC-E-07-08, Idaho Power uses a natural gas forecast for purposes of setting its retail rates that is different from, and much higher than the natural gas forecast used in setting its avoided cost rates. Attachment A is a copy of the Staff's Request for Production No. 3 to Idaho Power and Idaho Power's response from Idaho Power's general rate case. That question asked Idaho Power to identify the gas prices used in its economic modeling in the rate case. Attachment B is a copy of Idaho Power's natural gas forecast used in its pending general rate case. The gas price forecast used by Idaho Power in seeking a retail rate increase is significantly different from the forecast used in setting its avoided cost rates. Dr. Reading used Idaho Power's own forecast of natural gas prices in the Commission's avoided cost model, incorporating the new methodology recommended by Staff to arrive at revised avoided cost rates on Attachment C.

If Idaho Power is actually concerned that its avoided cost rates be set using the most accurate and current forecast of natural gas prices, it should be required to utilize the forecast it uses in setting its retail rates. It should not have its avoided cost rates set using a low natural gas price forecast while at the same time be permitted to set its retail rates based on a high forecast of natural gas prices.

VI  
CONCLUSION

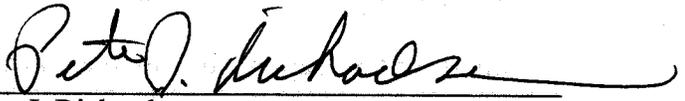
The Commission is respectfully urged to, as stated in Exergy's original Comments, deny Idaho Power's petition. In the alternative, Exergy recommends the Commission adopt Staff's

Exergy Development Group of Idaho LLC's Additional Comments IPC-E-07-15

revised methodology using the natural gas price forecast that Idaho Power uses in its general rate case that is currently pending before this Commission.

Respectfully submitted this 26<sup>th</sup> day of November 2007.

RICHARDSON & O'LEARY PLLC

By   
Peter J. Richardson  
Attorneys for Exergy Development Group  
of Idaho

CERTIFICATE OF SERVICE

I hereby certify that on this 26<sup>th</sup> day of November 2007, I served a true and correct copy of the within and foregoing by hand delivery to:

Bart Kline  
Ric Gale  
Idaho Power Company  
1221 West Idaho Street  
Boise, Idaho 83702

I further certify that on this 26<sup>th</sup> day of November 2007, I served a true and correct copy of the within and foregoing by electronic copy (pdf file) to:

Intermountain Wind LLC  
Dean J. Miller  
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Peter J. Richardson  
ISB # 3195

BEFORE THE  
IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER )  
COMPANY'S PETITION TO MODIFY THE )  
METHODOLOGY FOR DETERMINING )  
FUEL COSTS USED TO ESTABLISH )  
PUBLISHED RATES FOR PUPRA )  
QUALIFYING FACILITIES )

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CASE NO. IPC-E-07-15

EXERGY DEVELOPMENT GROUP  
OF IDAHO'S ADDITIONAL  
COMMENTS

ATTACHMENT A

**REQUEST FOR PRODUCTION NO. 3:** What gas prices have been assumed for the AURORA simulations? Please cite the source for these gas prices and discuss any adjustments or assumptions made by Idaho Power with regard to the gas prices used.

**RESPONSE TO REQUEST FOR PRODUCTION NO. 3:**

For 2007, a range of gas prices was used. At Henry Hub, that range was from \$5.87 per mmbtu to \$9.99 per mmbtu. At Danskin and Bennett Mountain the range was from \$5.67 per mmbtu to \$9.79 per mmbtu.

The 2006 IRP Gas Price Forecast was the basis for the prices used in the AURORA simulations. The PIRA, NYMEX, IGI, EIA and Global Insight prices for Sumas that had been obtained for the IRP analysis were updated and converted to 2007 year dollars. The prices were averaged to produce a single price at Sumas for each of the years 2007 through 2016. A basis adjustment was made to the Sumas price to produce prices at Henry Hub. The prices for the years 2007 through 2016 were then averaged to produce a single price at Henry Hub of \$7.93 per mmbtu.

The range described above was produced by examining the standard deviation in actual prices at Sumas from January 1, 2001 to December 31, 2006. That value was \$2.05 per mmbtu, or 26% of \$7.93. The low price in the range equals (1-.26) times \$7.93 and the high price equals 1.26 times 7.93.

The price range was escalated by 2.1% to produce 2008 year dollars for the 2008 AURORA run.

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CASE NO. IPC-E-07-15

EXERGY DEVELOPMENT GROUP  
OF IDAHO'S ADDITIONAL  
COMMENTS

ATTACHMENT B



BEFORE THE  
IDAHO PUBLIC UTILITIES COMMISSION

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COMPANY'S PETITION TO MODIFY THE )  
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CASE NO. IPC-E-07-15

EXERGY DEVELOPMENT GROUP  
OF IDAHO'S ADDITIONAL  
COMMENTS

ATTACHMENT C

20-yr Levelized Avoided Cost Rate for Idaho Power					
On-line Date	Current Pricing NWPCC 2004 Forecast	Updated Pricing Using Established Method	Proposal		EXERGY Proposal
			Using a 20 yr Avg. NWPCC 2007 Forecast	Staff Proposal Using all 20 years of forecast	Power Gas Forecast
2007	62.40	NWPCC 2007 Forecast 72.22	67.77	NWPCC 2007 Forecast 66.88	IPCO IPC-E-07-08 Gas Forecast 74.30
2008	63.84	73.22	68.15	67.14	74.85
2009	65.31	74.23	68.54	67.65	75.51