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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE PETITION OF)
IDAHO POWER COMPANY TO MODIFY) CASE NO. IPC-E-07-15
THE METHODOLOGY OF DETERMINING)
FUEL COSTS TO ESTABLISH) ADDITIONAL COMMENTS OF
PUBLISHED RATES) IDAHO WINDFARMS, LLC**

Idaho Windfarms, LLC (IWF) hereby respectfully submits its Additional Comments on Idaho Power's Petition in the subject proceeding.

KEY ISSUES

This proceeding boils down to two key questions:

1. If the cost of uncertainty is to be deducted from prices for PURPA wind projects, should it also be added to avoided costs?
2. Is it fair and reasonable to modify the current SAR methodology for only one factor – fuel costs.

ADDITIONAL COMMENTS ON UNCERTAINTY

Avista Utilities' IRP provides an excellent discussion of the impact of uncertainty on its customers. Page 6-10 of their IRP states, "*Historically, northwest utilities planned for variability inherent in their hydroelectric plants and load forecast. Now northwest utilities must consider natural gas price volatility, thermal plant forced outages, wind speed, extra-regional load and resource balances, and the ever changing*

face of emissions legislation." From this utility supplied list of important risk factors, only the uncertainty of wind speeds is being addressed by the Commission. This is the only factor which would reduce the avoided costs appropriate for wind projects. All of the other factors, which increase avoided costs, are ignored in Idaho's SAR methodology.

In most states, the costs of uncertainty are simply ignored. Integration costs are not assessed and a premium for fossil fuel prices is not included in avoided cost calculations. While this approach is not particularly scientific, it is at least internally consistent. By contrast, it is entirely unreasonable to assess a penalty for uncertain deliveries (integration costs) without including the benefit of price certainty.

Again, Avista's IRP, which is the only one to explicitly address planning risks, provides some guidance. They equate assembling a resource portfolio with assembling a personal investment portfolio (pg 8-14). In both cases, there are a large number of possible portfolios. However, optimal portfolios lie along an "efficient frontier". Portfolios not on this frontier take too much risk for their returns. For a resource plan, this means too little relative cost savings for the level of risk (volatility) in a particular plan. Better combinations are available.

The Executive Summary of Avista's IRP notes that the volatility of natural gas prices is so high that their planning model would elect to pay even a 75% premium over the natural gas price forecast to lock in long term prices. In its Base Case, Avista assumes a 30% price premium over the gas forecast. This simply means that Avista would prefer to pay a 30% premium above forecasted gas prices in a long-term contract to eliminate price uncertainty. The resulting cost-risk scenario would be closer to their efficient frontier. In other words, it would be better for ratepayers. Of course, in the real world, this option is not available to Avista at any price.

Avista's work implies that ratepayers would be better off if a 30% premium over the forecasted natural gas prices is included in PURPA rates for resources that can deliver energy at fixed long-term prices, such as wind. This is the cost of fuel price uncertainty. Adding this cost to PURPA rates is just as valid as deducting the cost of delivery uncertainties (integration costs).

SAR METHODOLOGY

All avoided cost methodologies are a compromise. They evolve through complex negotiations involving numerous stakeholders. While the current method of modeling the fuel forecast is indeed favorable to PURPA projects, there are other components which are unfavorable. How can these be balanced without a full and fair review of all elements of Idaho's avoided cost methodology?

One key example of a clearly unfavorable item is the resource sufficiency period, which was eliminated in the last review of the SAR methodology. Avoided costs can be divided into short-run and long-run periods. In the short-run, utilities must rely on market purchases for additional energy. In the long-run, new resources can be added to meet new load. The SAR methodology is now completely long-run.

The resource sufficiency period defines the short-run where the resource base of the utility is fixed. Typically one would expect that short-run avoided costs are lower than long-run avoided costs. However, markets have flipped and market purchases are currently priced above the expected long-run avoided costs. This can be clearly seen in Oregon, where Portland General and PacifiCorp use a resource sufficiency period in their avoided cost calculations and Idaho Power does not. As a result, Idaho Power's SAR based avoided costs are lower than the other two utilities. The following table compares the current PURPA prices in Oregon:

Oregon Avoided Costs

<u>Utility</u>	<u>2008 20-Yr Levelized (\$/MWh)</u>	<u>Resource Sufficiency Period</u>
PGE	73.40	Yes
PacifiCorp	72.34	Yes
Idaho Power (SAR)	67.67	No

It is important to note that both PGE's and PacifiCorp's published prices are comparable to the avoided costs calculated under the current SAR methodology. While there is no direct relationship between including a resource sufficiency period and Idaho Power's requested fuel forecast modification, they are clearly offsetting items.

CORRECTION

We would like to use this opportunity to correct the comparison of IRP cost estimates for combined cycle projects filed in our original Comments. Avista has pointed out that we unintentionally neglected to deduct environmental costs from their cost estimate. In addition, we learned that they assume a 100% capacity factor for their cost of power calculations. The corrected table is below:

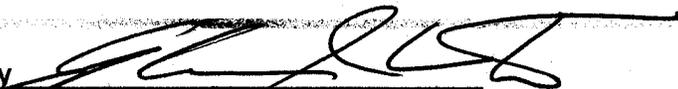
Comparison of CCCT IRP Cost of Power Estimates (\$/MWh)					
(Revised)					
(Tilted Capital Method)					
	IPC	PAC	AVU	2007 SAR Update	
				Current Method	IPC Proposal
Cost Estimate Year (SAR - non fuel)	2006	2006	2007	2000	2000
Utility CCCT Cost of Power from IRPs	78.00	74.71	65.14		
Type of Levelized Dollars	Nominal	Real	Real	Nominal	Nominal
IRP Capacity Factor	85%	56%	100%		
Adjust to SAR Capacity Factor (92%)	-0.79	-6.00	0.83		
Delete Environmental Adders	-5.00	-2.27	-3.31		
2006 Real Dollars	NA	66.44	62.66		
Escalate Nominal \$ to 2008	2.92	NA	NA		
2008 20-Yr Nominal Levelized \$	75.13	78.88	72.77	73.22	68.15

CONCLUSION

The Idaho wind industry has limped along for long enough. The Commission should simply deny Idaho Power's Petition. The current SAR methodology produces a reasonable result when all things are considered.

Respectfully submitted this 26th day of November, 2007:

By


 Glenn Ikemoto, Authorized Manager
 Idaho windfarms, LLC

CERTIFICATE OF SERVICE

I hereby certify that on the 26th day of November, 2007, true and correct copies of the **ADDITIONAL COMMENTS OF IDAHO WINDFARMS, LLC** were delivered by U.S. Mail to:

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