Office of the Secretary
Service Date
November 9, 2007

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 PURPA QUALIFYING FACILITIES	))))))	**CASE NO. IPC-E-07-15** **NOTICE OF ADDITIONAL COMMENT PERIOD**

Pursuant to the Public Utility Regulatory Policies Act of 1978 (PURPA) and the implementing regulations of the Federal Energy Regulatory Commission (FERC), the Idaho Public Utilities Commission (Commission) has approved a methodology for calculation of the avoided cost rates paid to PURPA qualifying cogeneration and small power production facilities (QFs) by Idaho Power Company, Avista Corporation and PacifiCorp. Avoided cost rates are the purchase price paid to QFs for purchases of QF capacity and energy.

On September 10, 2007, Idaho Power Company (Idaho Power; Company) filed a Petition with the Idaho Public Utilities Commission (Commission) to modify the methodology for determining fuel costs used to establish published rates for PURPA QFs. Idaho Power contends that use of the current method to set the fuel cost component in the surrogate avoided resource (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.

BACKGROUND

In Order No. 29124 issued 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 surrogate avoided resource (SAR) methodology. For QF projects generating less than 10 aMW, the avoided cost rates determined by the SAR methodology are commonly referred to as the published rates. The current SAR is a natural gas-fired combined cycle combustion turbine.

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 3 years of the Northwest Power Planning and Conservation Council's (NWPCC) median 20-year forecast of natural gas prices. These three years consist of the current year's forecasted price, plus the previous two years' forecasted prices, escalated a uniform percent per year over 20 years (escalation rate also calculated from NWPCC forecast).

In 2004, the NWPCC revised the 20-year natural gas price forecast. In Order No. 29646, the Commission revised the fuel cost component for the SAR methodology utilizing the average of the NWPCC's natural gas price forecast for the 3-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 2.3%. 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.

IDAHO POWER PROPOSAL

On July 31, 2007, the NWPCC released a draft of its next forecast of natural gas prices. Petition, Attachment 1.[1] Idaho Power contends that there exists an extreme divergence between NWPCC's forecast of natural gas prices and the assumed cost of fuel for the SAR. 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 in natural gas prices is the use of the 3-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 NWPCC's 20-year forecast. Failing to recognize the non-linear shape of the NWPCC's 2007 forecast, the Company contends, will cause the published rates to be much higher than they otherwise would be.

Idaho Power proposes that the Commission utilize the average of all 20 years of the NWPCC's final 2007 median 20-year natural 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. (Utilizing assumptions in the NWPCC 2007 draft forecast, the calculated escalation rate is 1.10%.)

Petition Attachment 4 depicts three sets of published avoided cost rates for Idaho Power: (1) the current published avoided cost rates; (2) 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; and (3) the Idaho Power

[1] The draft fuel price forecast was approved by the NWPCC on September 11, 2007. See http://www.nwcouncil.org/library/2007/2007-14.htm.

proposal – 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:

Published Rate Calculation Model	Using NWPCC Gas Forecast		
	Current Pricing	Update Fuel Only Using Established Method	Update Fuel Only Using a 20 yr Avg
	NWPCC 2004 Fuel 3 yr avg 2002-2004	NWPCC 2007 Fuel 3 yr avg 2005-2007	NWPCC 2007 Fuel 20 yr avg 2008-20027
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

Idaho Power believes that its 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 NWPCC's 2007 natural gas price forecast in the current SAR methodology model. The Company is not requesting a stay of the implementation of the new published rates while this case is pending.

Idaho Power requests that the Commission issue an Order 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 NWPCC's 2007 final median forecast of natural gas prices rather than the escalated average of the first 3 years of the same forecast.

On September 27, 2007, the Commission issued a Notice of Petition and Modified Procedure in Case No. IPC-E-07-15 establishing a comment deadline of October 23, 2007. Comments were filed by Idaho Windfarms LLC, Intermountain Wind LLC, Exergy Development Group, Commission Staff, Avista Corporation, PacifiCorp dba Rocky Mountain Power, INL Engineers, and other interested parties. All parties other than the utilities and Staff oppose a change in the methodology.

Idaho Power proposes that the Commission utilize the average of all 20 years of the Council's median 20-year forecast. The Commission Staff contends that a better, more straight-

forward and mathematically sound approach would be to use each year of the Council's entire forecast "as is" rather than the escalated average of the first three years. Avista contends that the Company proposal does not account for the "time value of money." By using an average price across all of the year, it states, they are proposing to pay a higher cost now and a lower cost later on, in real dollar terms. Avista and PacifiCorp support Staff's proposed method.

Exergy urges the Commission to deny the Company's Petition and to implement new rates based on the existing SAR methodology. Exergy contends that the 17 inputs that comprise the methodology are interdependent. The requested change in the variable fuel cost component methodology, it states, reduces the published avoided cost from what it otherwise would be. Exergy contends that some fixed components to the methodology have changed and should also be adjusted (citing, e.g., construction costs and interest rates). In support of its opposition to a change in only one component, Exergy contends that the Council's forecast has proven to be extremely conservative.

Idaho Windfarms contends that there is an imbalance that occurs when the uncertainty of wind is adjusted for integration costs and the fuel price uncertainty in utility resources is ignored. Both, it states, have an equivalent impact on ratepayers. Clearly, it states, if we are to revisit one issue in calculating average costs, it is fair and reasonable to revisit them all.

Avista opposes a revisiting of the non-fuel SAR assumptions. Natural gas, it notes, represents approximately 80% of the overall cost of the SAR resource. Other cost drivers included in the SAR, on the whole, it contends, remain reasonable, and were they to change would not greatly affect overall published rates.

Idaho Windfarms, Intermountain Wind and Exergy all characterize the Company's proposal to change the fuel cost component methodology as a violation of the policy disfavoring a single-issue rate case. Adjustment of only one item that makes up an overall rate, without examining all components of the overall rate, Intermountain Wind contends, makes it impossible for the Commission to make the statutorily required public interest finding that the overall rate is "fair, just and reasonable." *Idaho Code* § 61-502. Intermountain Wind contends that avoided cost rates under PURPA are subject to the same "fair, just and reasonable" standard as are retail rates. Intermountain Wind and Idaho Windfarms contend further that the Company's proposal is also an impermissible collateral attack on a final Order. *Idaho Code* § 61-625.

Idaho Power in reply comments provides a brief summary of the legal underpinnings and requirements of PURPA and distinguishes the standards the Commission is required by federal law to follow in establishing avoided cost rates and the standards that Idaho law establishes for setting retail rates. Federal law, it states, does not require the Commission to consider whether the avoided cost rates it sets are sufficient to make QF projects economically viable. If the Commission sets avoided cost rates that are equal to "the incremental cost to the utility of alternative energy" the published rates, it concludes, are per se, just, reasonable and non-discriminatory. 18 C.F.R. § 292.101(b)(6) definition "avoided costs"; 18 C.F.R. § 292.304(a) Rates for Purchases.

Despite Exergy's urging, federal law, Idaho Power contends, 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. *Connecticut Light & Power Co.*, 70 FERC ¶ 61,012 (1995).

Idaho Power states that the alternative methodology proposed by Staff, Avista and Rocky Mountain is reasonable and is superior to the current methodology. The Company believes, however, that the Staff and utilities' proposal will cause greater swings in the cash flows of QF developers and may thus impact project financing.

Addressing the suggestion that perhaps all SAR methodology cost components need to be updated, Idaho Power states that it is agreeable to hosting a meeting no later than March 1, 2008 to identify and quantify necessary updates to the remaining avoided cost methodology components. The Company is hopeful that an agreement can be reached and subsequently filed with the Commission as a consensus document.

YOU ARE HEREBY NOTIFIED that the Commission has reviewed the filings, comments and recommendations in Case No. IPC-E-07-15. The Commission finds it reasonable, given the proposals and recommendations of commenting parties, to provide the following schedule and deadline for the filing of additional written comments or protests with respect to Idaho Power's Petition, the alternative proposal of Staff, Avista, and PacifiCorp and the use of Modified Procedure in Case No. IPC-E-07-15:

Monday, November 26, 2007	Deadline for additional comments
Wednesday, December 5, 2007	Deadline for Idaho Power reply

YOU ARE FURTHER NOTIFIED that written comments concerning Case No. IPC-E-07-15 should be mailed to the Commission and the Company at the addresses reflected below.

Commission Secretary
Idaho Public Utilities Commission
PO Box 83720
Boise, ID 83720-0074

Street Address for Express Mail:

472 W. Washington Street
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All comments should contain the case caption and case number shown on the first page of this document. Persons desiring to submit comments via e-mail may do so by accessing the Commission's home page located at www.puc.idaho.gov. Click the "Comments and Questions" icon, and complete the comment form, using the case number as it appears on the front of this document. These comments must also be sent to Idaho Power at the e-mail addresses listed above.

YOU ARE FURTHER NOTIFIED that the Petition and comments in Case No. IPC-E-07-15 may be viewed at www.puc.idaho.gov by clicking on "File Room" and "Electric Cases," or can be viewed during regular business hours at the Idaho Public Utilities Commission, 472 W. Washington Street, Boise, Idaho and at the general business office of Idaho Power Company, 1221 West Idaho Street, Boise, Idaho.

DATED at Boise, Idaho this 9th day of November 2007.

MACK A. REDFORD, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

JIM KEMPTON, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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