

DECISION MEMORANDUM

TO: COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSIONER KEMPTON
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: SCOTT WOODBURY
DEPUTY ATTORNEY GENERAL

DATE: MARCH 13, 2009

SUBJECT: CASE NO. IPC-E-09-03 (Idaho Power)
CERTIFICATE OF PUBLIC CONVENIENCE AND NECESSITY –
LANGLEY GULCH POWER PLANT

On March 6, 2009, Idaho Power Company (Idaho Power; Company) filed an Application with the Idaho Public Utilities Commission (Commission) for a Certificate of Public Convenience and Necessity (Certificate) authorizing construction of the Langley Gulch Power Plant (Langley Gulch; Project) and inclusion of the Project in the Company's rate base. *Idaho Code* § 61-526, -528; RP 112.

Idaho Power requests authority to construct, own, operate and maintain the Langley Gulch Power Plant. The Project is a natural gas-fired combined-cycle combustion turbine (CCCT) generating plant with a nameplate capacity of approximately 330 MW. The Company proposes to construct the Project on a parcel of land on the south side of Interstate 84 in Payette County approximately four miles south of the town of New Plymouth, Idaho.

The Project is a base load generating resource of the size and type identified as the preferred resource in the Company's June 2008 update to its 2006 Integrated Resource Plan (IRP). The Project was selected as a result of a competitive process (request for proposals or RFP) in which the Company solicited proposals from independent power supply developers. The proposals were compared to each other and to a benchmark utility-owned and operated CCCT (Benchmark Resource). Langley Gulch project is the Benchmark Resource. The RFP process assessed the price and non-price attributes of the responses to the RFP. The RFP process identified the Project as the preferred resource. The RFP process selected the Project principally

because the 20-year revenue requirement for the Project was significantly less than the other proposals under consideration.

The Application and supporting testimonies describe in greater detail the RFP process and description of the Langley Gulch project. Idaho Power's commitment estimate for the Project is \$427,400,000. On a net present value basis, over the 20-year term of a power purchase agreement (PPA) or tolling agreement (TA) the Project is estimated to have a revenue requirement impact of approximately \$108 million lower than the next least expensive proposal in the Company's RFP process.

The Company commits to procure and construct the Project for an amount that will not exceed the commitment estimate. Amounts incurred in excess of the commitment estimate will be subject to a "soft cap"; that is excess costs could only be included in rates if the Commission agreed the additional amounts expended were prudent and should be included in fair, just and reasonable rates.

The Company commits to provide the Commission with periodic percentage of completion and cost expenditure reports during the construction phase of the Project. The final report on the Project will compare the actual completed cost to the commitment estimate.

A major component of the operating cost of a combined-cycle combustion turbine generating plant is the cost of natural gas fuel. The Company states that it currently owns or will acquire firm fuel transportation rights that can be utilized by the Project. As part of its Application, the Company is requesting that the Commission's Order issuing the Certificate authorize Idaho Power to include the Project's prudently incurred costs for fuel, fuel storage and fuel transportation for recovery through the Company's existing Power Cost Adjustment (PCA) mechanism.

The Company is requesting that the Commission include in its Order issuing a Certificate authority for the Company to utilize one of two alternative ratemaking mechanisms that will put the Company in the best position to finance this project. (1) The first ratemaking mechanism would be to allow the Company to annually collect construction work in progress (CWIP) in its rates for all or a portion of the construction expenditures the Company incurs as it moves forward with construction of the Project or alternatively commit to apply specific ratemaking treatment that the Company can rely upon when the Project is completed and providing service to customers. (2) The second alternative, the ratemaking commitment, the

Company contends, is identical to the mechanism envisioned in the rate certainty legislation that is currently being discussed in the Idaho Legislature in Senate Bill 1123.

Until the Commission issues a Certificate with ratemaking assurances and provisions, the Company states it cannot prudently proceed with the Project. As a result, the commercial operation date of the Project is directly related to the issuance of a Certificate, including the necessary cost-recovery and ratemaking commitments. To the extent the Commission can expedite its review of the Application; the Company contends that it will redound to the benefit of customers and system reliability.

Idaho Power requests that its Application be processed under Modified Procedure, Commission Rule of Procedure 201, allowing for consideration of issues by written submissions rather than evidentiary hearing.

COMMISSION DECISION

Idaho Power recommends Modified Procedure. Staff recommends that the Commission issue a Notice of Application, establish an intervention deadline and schedule a procedural conference of parties. Does the Commission find Staff's proposed procedure acceptable?



Scott Woodbury
Deputy Attorney General

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