Office of the Secretary
Service Date
October 5, 2009

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR APPROVAL OF A FIRM ENERGY SALES AGREEMENT FOR THE SALE AND PURCHASE OF ELECTRIC ENERGY BETWEEN IDAHO POWER COMPANY, CASSIA GULCH WIND PARK LLC AND TUANA SPRINGS ENERGY LLC	)	**CASE NO. IPC-E-09-24** **ORDER NO. 30917**

On August 11, 2009, Idaho Power Company (Idaho Power; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting approval of a 20-year Firm Energy Sales Agreement between Idaho Power and Cassia Gulch Wind Park LLC (Cassia Gulch) and Tuana Springs Energy LLC (Tuana Springs) dated August 5, 2009 (Agreement).

AGREEMENT

Cassia Gulch currently owns, maintains and operates an existing 18.9 MW wind generating facility located near Hagerman, Idaho in an area known as Bell Rapids. Reference Case No. IPC-E-06-11, Order No. 30087. The Cassia Gulch agreement is for a 20-year term and contains the published non-levelized avoided cost rates set forth in Order No. 29646.

Tuana Springs proposes to design, construct, own, operate and maintain a new 16.8 MW wind generating facility adjacent to and as an expansion of the Cassia Gulch facility. It is the contract parties' intent that the Cassia Gulch agreement remain in full force and effect until such time as the expansion facilities (Tuana Springs Expansion) have achieved their operation date of June 30, 2010. At such time the Cassia Gulch agreement shall automatically terminate and shall be replaced by this new Agreement. The net energy from the Cassia Gulch and Tuana Springs Expansion will be combined into a single qualifying facility (QF) with a nameplate rating of 35.7 MW.

The purchase price contained in the Agreement was established by running the Aurora economic dispatch model consistent with the Commission's requirements for projects larger than 10 MW. The purchase price established by running the Aurora economic dispatch model was then blended with the prices contained within the existing Cassia Gulch Wind Farm

Agreement in order to preserve the value of the existing Cassia Gulch Wind Farm agreement for the Idaho Power ratepayers.

Idaho Power requests that the Commission issue an Order approving the Firm Energy Sales Agreement with Cassia Gulch and Tuana Springs without change or condition and declaring that all payments for purchases of energy under the Firm Energy Sales Agreement be allowed as prudently incurred expenses for ratemaking purposes. Agreement ¶ 21.

On August 25, 2009, the Commission issued a Notice of Application and Modified Procedure in Case No. IPC-E-09-24 and established a September 23, 2009 comment deadline. Commission Staff was the only party to file comments. Staff recommends that the Firm Energy Sales Agreement between Idaho Power, Cassia Gulch and Tuana Springs be approved.

COMMISSION STAFF COMMENTS

Purchase Prices

Staff notes that the submitted Agreement is unusual because it proposes to combine an existing project (Cassia Gulch) with a yet to be constructed expansion (Tuana Springs) into a single contract that will exceed 10 aMW. In accordance with prior Commission Orders, projects smaller than 10 aMW are eligible for "published" avoided cost rates; projects 10 aMW and larger are eligible for project-specific rates computed using a prescribed Integrated Resource Plan (IRP) based methodology.

In order to establish appropriate purchase prices for this Agreement, Staff states that Idaho Power analyzed three different alternatives for structuring contracts: (1) two separate 10 aMW agreements, the existing Cassia Gulch agreement and a proposed new Tuana Springs agreement; (2) a single agreement for one large project (35.7 MW); and (3) a combination of the existing agreement plus the expansion, resulting in a new Agreement for a 35.7 MW wind park. The third option combining the two projects into a single contract with a blend of existing Cassia Gulch existing rates and the AURORA pricing for the expansion resulted in total energy costs less than the other two options. The result of blending those rates for the developer-estimated kWh production over a 20-year period (1,635,024,570 kWh) is an estimated total energy payment of $120,137,853. Idaho Power believes that this blended rate preserves for ratepayers the benefits associated with the existing Cassia Gulch agreement. In addition, this option includes the wind integration costs, wind forecasting, heavy and light hour load pricing and the

Mechanical Availability Guarantee (MAG) requirements that were not previously required in the Cassia Gulch Wind Park agreement. Staff believes that the blended rates proposed in the Agreement are reasonable and in the best interests of Idaho Power and its ratepayers.

New Wind Contract Provisions

Staff notes that the submitted Agreement is one of the first PURPA wind agreements executed by the Company since issuance of Commission Order No. 30488, which requires the inclusion of the Mechanical Availability Guarantee (Paragraph 6.4), wind integration cost reduction (Paragraph 7.1), and wind forecasting cost sharing (Appendix E). The Commission approved these provisions for future wind contracts as an acceptable substitute for the 90/110 requirements in earlier contracts. The 90/110 provisions require facilities to predict future monthly generation with a fairly high degree of certainty in order to justify payments of "firm" energy rates. For resource technologies with intermittent generation (like wind), Staff states, the 90/110 requirements may prove difficult to meet.

Under the MAG provisions in this Agreement, the project is required to achieve a minimum monthly mechanical availability of 85%. In other words, Staff states, the project must be able to operate at least 85% of the hours in the month, not counting hours when wind speeds are too low or too high, force majeure events, forced outages, and scheduled maintenance periods. Failure to achieve an 85% mechanical availability results in damages being assessed equal to the difference in the per kWh price between the contract rates and corresponding market energy prices, subject to a minimum price penalty of 15 mills per kWh. The minimum price penalty is intended to recognize that the Company will incur transaction and administrative costs to acquire replacement power even if market prices are less than contract rates. Staff believes that the MAG provisions in the Agreement are reasonable and recommends that they be approved.

As specified in Order No. 30488, Idaho Power shall make use of a wind energy production forecasting model to forecast the energy production from this facility and other QF wind generation resources. Idaho Power will share the cost of wind energy production forecasting equally with the project owner. The facility share of wind energy production forecasting will be prorated based on its generation in relation to all other QF wind projects providing energy to Idaho Power. The project share will not be greater than 0.1% of the total energy payments made to the project by Idaho Power during the previous contract year.

Delay Liquidated Damages and Security Provisions

Staff notes that the Agreement contains provisions for delay liquidated damages (Paragraph 5.3) and associated delay security (Paragraph 5.7) to secure the established Scheduled Operation Date of June 30, 2010, for the Tuana Springs expansion portion of the facility. Delay liquidated damages have been included in contracts since July 2007; however, this will be one of the first contracts to require delay security.

Under the terms of the Agreement, for online delays of up to 90 days, liquidated damages are assessed if Idaho Power must pay more to acquire replacement power than it would have otherwise paid to purchase power under the Agreement. If a delay in the project's online date extends beyond 90 days, liquidated damages of $20 per kW will be assessed ($336,000 based on a capacity of 16.8 MW for the Tuana Springs expansion). In addition, Idaho Power can choose to terminate the Agreement if the delay in meeting the Scheduled Operation Date extends beyond 90 days. In order to ensure that the project will be able to pay delay liquidated damages should they be incurred, the project is required to post liquid security in an amount equal to $20 per kW of project capacity. Staff believes that these provisions are necessary and reasonable. When projects are delayed, Staff contends that the Company must sometimes incur higher costs to acquire replacement power.

Generator Interconnection and Transmission

The Cassia Gulch and Tuana Springs projects, Staff notes, are located in an area west of Hagerman, adjacent to each other and in close proximity to several other proposed and existing projects. Projects in this vicinity were studied as a cluster in connection with Case No. IPC-E-06-21 (Cassia Case). One outcome of the Cassia Case was a Settlement Stipulation that determined the transmission system improvements necessary in order to accommodate all of the proposed projects in the cluster, and devised a method for allocating costs among Idaho Power and each of the projects. The Cassia Gulch and Tuana Springs projects were included in the Settlement Stipulation.

In addition to the Power Sales Agreement, Staff states it will be necessary for a Generator Interconnection Agreement to be signed before the Tuana Springs expansion can proceed. The terms and costs to be included in the Generator Interconnection Agreement will be in accordance with the Cassia formula as included in the Stipulation in Case No. IPC-E-06-21. These cost estimates are the project's pro rata share of upgrades for the cluster of proposed projects in the Twin Falls area based on their position in the generator interconnection queue and megawatt value. The upgrade costs are the same whether Cassia Gulch and Tuana Springs are considered separate projects or combined under one power sales agreement. The transmission interconnection costs to be assigned to the projects will be based on "re-dispatch" as described in the Stipulation in the Cassia Case.

The Agreement provides that all applicable interconnection charges and monthly operation and maintenance charges under Schedule 72 will be assessed to Cassia Gulch and Tuana Springs. The Cassia Gulch portion of the project is already complete, interconnected to Idaho Power's system, and operational. The facility study portion of a generator interconnection process for the expansion phase of the facility – the last in the series of three transmission studies – has been completed, and the execution of a Generator Interconnection Agreement is the next step of that process. Idaho Power's delivery business unit is continuing its design work under the facility study agreement and, in that process, has undertaken discussions with Cassia Gulch and Tuana Springs. Based on the studies to date and the discussions with Cassia Gulch and Tuana Springs, Idaho Power has concluded that, assuming the developer continues to provide necessary technical information and pay for long lead time materials in a timely manner, the Company will have sufficient time and available resources to construct the interconnection facilities in time to allow the expansion facilities to meet the Scheduled Operation Date.

COMMISSION FINDINGS

The Commission has reviewed the filings of record in Case No. IPC-E-09-24, including the proposed Agreement and filed comments. The Commission has also reviewed its related Order No. 30087 in Case No. IPC-E-06-11 approving the existing firm energy sales agreement for Cassia Gulch. Idaho Power has presented a Firm Energy Sales Agreement whereby the net energy from the Cassia Gulch and Tuana Springs expansion will be combined into a single qualifying facility with a nameplate rating of 35.7 MW. We acknowledge that the existing Cassia Gulch Agreement will remain in full force and effect until such time as the Tuana Springs expansion facilities have achieved their operation date of June 30, 2010. We note that Idaho Power appears satisfied in this case that transmission and generator interconnection issues are unlikely to cause a delay in the project's Scheduled Operation Date for Tuana Springs expansion.

The Commission finds that the proposed Agreement submitted in this case contains acceptable contract provisions and includes rates calculated in a reasonable manner and representative of the costs Idaho Power will avoid in making the purchase. We find it reasonable that the submitted Agreement be approved without further notice or procedure. IDAPA 31.01.01.204. We further find it reasonable to allow payments made under the Agreement as prudently incurred expenses for ratemaking purposes.

CONCLUSIONS OF LAW

The Idaho Public Utilities Commission has jurisdiction over Idaho Power Company, an electric utility, pursuant to the authority and power granted under Title 61 of the Idaho Code and the Public Utility Regulatory Policies Act of 1978 (PURPA). The Commission has authority under PURPA and the implementing regulations of the Federal Energy Regulatory Commission (FERC) to set avoided costs, to order electric utilities to enter into fixed-term obligations for the purchase of energy from qualified facilities and to implement FERC rules.

ORDER

IT IS HEREBY ORDERED and the Commission hereby approves the August 5, 2009, Firm Energy Sales Agreement between Idaho Power Company and Cassia Gulch Wind Park, LLC and Tuana Springs Energy, LLC.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 5th day of October 2009.

JIM D. KEMPTON, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

Out of the Office on this Date
MACK A. REDFORD, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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