

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF IDAHO POWER COMPANY FOR)	CASE NO. IPC-E-09-34
APPROVAL OF AN AGREEMENT TO)	
PURCHASE CAPACITY AND ENERGY)	
FROM USG OREGON, LLC AND)	ORDER NO. 31087
AUTHORIZE RECOVERY IN THE)	
<u>COMPANY'S POWER COST ADJUSTMENT</u>)	

On December 28, 2009, Idaho Power Company filed an Application requesting approval of a Purchase Power Agreement and an accounting order authorizing the Company to recover purchases of energy and associated costs from the USG Oregon, LLC, Neal Hot Springs Unit No. 1 geothermal generation facility. The Company seeks recovery of its costs and purchases in its annual Power Cost Adjustment (PCA).

The Application states that Idaho Power indicated in both its 2004 and 2006 Integrated Resource Plans (IRPs) that it intended to actively seek acquisition of geothermal generating resources. In 2006, the Company issued a request for proposal (RFP) to acquire geothermal resources and then entered into an agreement with U.S. Geothermal to purchase power from its Raft River No. 1 geothermal power plant. Idaho Power issued a new request for proposal in 2008 to acquire additional geothermal resources. The Company received three responses, two of which were withdrawn by the bidders, and the Company concluded that the third bid was too speculative and thus unacceptable. Application, p. 3. The Company's Application states that this experience with the unsuccessful RFP process demonstrates that "the competitive RFP process is not the optimal means to acquire geothermal resources." Application, pp. 3-4. Accordingly, the Company actively pursued discussions with developers of five different potential geothermal sites, including the Neal Hot Springs site. The Company believes the Neal Hot Springs development is advantageous for several reasons, including (1) substantial prior geotechnical exploration at the site, (2) its location in Idaho Power's service area and proximity to Treasure Valley load centers, (3) available transmission capacity, and (4) favorable energy pricing in comparison to other proposals. Application, p. 4.

On December 11, 2009, Idaho Power and USG Oregon, LLC entered into a Power Purchase Agreement providing for the Company's purchase of energy from the Neal Hot Springs

Unit No. 1 geothermal generation facility. USG Oregon, LLC is a subsidiary of U.S. Geothermal. The Neal Hot Springs project is located approximately 12 miles west northwest of Vale, Oregon. The project is expected to produce approximately 22 MW of power with an estimated online date late in 2012. The Purchase Agreement provides an initial term of 25 years with an option for Idaho Power to extend the term of the Agreement. The Agreement provides that Idaho Power will receive the rights to all environmental attributes and renewable energy credits now available or created during the term of the Agreement. The Agreement grants Idaho Power the first right-of-offer to participate in any future U.S. Geothermal resource development at the site or in close proximity to the site. Application, p. 5.

The energy price stated in the Agreement will be seasonally adjusted consistent with seasonality factors currently used in Idaho Power's PURPA agreements. The Company asserts that seasonal prices give the correct price signal by promoting production when the value of the energy to the Company is highest. Beginning in 2012, the flat energy price is \$96/MWh. The price escalates annually, resulting in a 25-year levelized contract price of approximately \$117.56/MWh. This compares to a levelized price for a 20-year PURPA contract of \$95.56/MWh. The Company asserts that, while the price of energy under this Agreement is higher than energy purchased under PURPA contracts, there are benefits to this Agreement that bring value to Idaho Power's customers that PURPA contracts do not. The Company identifies these benefits as (1) the Company's rights to any of the project's renewable energy credits, (2) the limited ability to curtail energy, (3) the right of first offer on ownership of other site development, (4) exploration, development and construction milestone requirements and associated damages, and (5) the right to extend the terms of the contract. The Application states that with the addition of a relatively minor system upgrade, sufficient firm transmission capacity is available for the full output of the project to be delivered to Idaho Power's load centers.

Because the Agreement is not a PURPA contract, the Company proposes that the cost of power purchased under the Agreement be recovered in its annual PCA in a manner similar to other non-qualified facility power purchase expenses. The Company requests that its Application be processed by Modified Procedure, that the Commission find that the Agreement is prudent for ratemaking purposes and that the Commission approve its request for recovery of the power purchase expense associated with the Agreement in the Company's power cost adjustment rate. On March 17, 2010, the Commission issued a Notice of Application and Notice of Modified

Procedure that provided notice of an opportunity to file written comments and reply comments on or before May 13, 2010. The only written comments received were filed by the Commission Staff.

Staff reviewed Idaho Power's process to obtain proposals for geothermal resources including the Company's effort to obtain the resources through the RFP process. The Company issued an RFP in 2006, and ultimately selected a proposal from U.S. Geothermal, Inc. to develop two 13 MW phases at the Raft River site near Malta, Idaho and two phases at Neal Hot Springs. Idaho Power issued a new RFP in January 2008 to acquire additional geothermal resources. The RFP specified bids for up to 100 MW with a target online date of June 2011, but also stated that the Company was willing to allow flexibility and possible delay in the project online date. The Company received three responses to the RFP, but ultimately two of the proposals were withdrawn by the bidders and the Company rejected the third. With this experience, the Company decided to directly discuss with developers the possibility of geothermal development, including possible development of the Neal Hot Springs site. Negotiations for generation at the Neal Hot Springs site began in April 2008.

Staff expressed two concerns with the negotiation process between Idaho Power and U.S. Geothermal. First, the prices in the Agreement submitted for Commission approval are higher than the prices offered by U.S. Geothermal in its RFP bid. Second, the scheduled operation date for the Neal Hot Springs project is much later than both the original 2010 online date originally proposed by U.S. Geothermal and the June 2011 date requested by Idaho Power in its 2006 RFP. The parties now estimate an online date of late 2012, but Staff noted that under the terms of the Agreement the project scheduled operation date could be as late as December 2017. Staff stated it is difficult to confirm that the pricing in the Agreement is favorable compared to other proposals because those proposals were withdrawn or rejected before serious negotiations began with U.S. Geothermal regarding the Neal Hot Springs site. Staff Comments, p. 7.

The energy prices contained in the Agreement begin in 2012 at \$96 per MWh, and escalate during the 25 years of the term. Staff compared the contract rates with three other energy purchase rates to evaluate the reasonableness of the contract terms. Staff compared the energy prices to a 25-year PURPA contract for a facility smaller than 10 aMW, to a PURPA facility larger than 10 aMW, and to the cost of power that will be provided by Idaho Power's

Langley Gulch facility. The rates in the Neal Hot Springs Agreement are higher than all three of the other facilities. Staff Comments, pp. 7-9.

Despite identifying concerns with the Agreement, Staff recommended the Commission approve all of the Agreement's terms and conditions as submitted and find that all payments Idaho Power makes to USG Oregon, LLC for purchases of energy from the Neal Hot Springs Unit No. 1 generation facility will be allowed as prudently incurred expenses for ratemaking purposes. Additionally, Staff recommended the cost of power purchased under the Agreement be recovered in Idaho Power's annual PCA until the next general rate case, at which time the Company would be allowed to include costs as specified in the Agreement in base rates.

COMMISSION FINDINGS

Based on the record in this case, the Commission has determined to approve the power purchase agreement as filed with the Application. Although the energy costs for the Neal Hot Springs facility are higher than current PURPA rates, the Agreement provides benefits to Idaho Power as identified by the Application. For example, Idaho Power will receive ownership of all renewable energy credits associated with the facility, and this clearly will provide value to Idaho Power. Additional favorable contract terms include the Company's ability to curtail energy deliveries from the project, and the right of Idaho Power to purchase additional generation capacity if it is added in the future. The Agreement enables Idaho Power the first right to purchase the facility assets if the owner proposes to sell them during the term of the Agreement. The Agreement contains liquidated damages for construction delays and energy shortfall damages, contract terms that make it more favorable to the Company. Finally, Idaho Power has an option to extend the terms of the Agreement, although any extension requires renegotiation of the terms and conditions. These contract terms provide value to Idaho Power in the project, and taken altogether, make the terms of the Agreement fair and reasonable. The Agreement also is significant in that it brings a unique generating facility into Idaho Power's mix of resources.

The Commission notes that this case presents a situation where the RFP process, the preferred method for obtaining competitive proposals for energy purchases, ultimately was not successful. Contract terms resulted from direct negotiations rather than through an RFP. In most circumstances where the RFP process is not successful, Idaho Power is not precluded from directly negotiating contract terms with a single provider. However, the Company always bears

the burden, when seeking Commission approval of a purchase agreement, of demonstrating its terms are fair, just and reasonable.

The Commission finds the terms of the Purchase Power Agreement between Idaho Power and USG Oregon, LLC, Neal Hot Springs Unit No. 1 geothermal generation facility to be fair, just and reasonable. Purchases of energy from the Neal Hot Springs Unit No. 1 generation facility will be allowed as prudently incurred expenses for ratemaking purposes, and may be recovered in Idaho Power's annual PCA until the Company's next general rate case. Idaho Power is directed to provide copies of progress reports that are required under the Agreement to Staff. If the contract terms are amended for any reason, the Company is required to submit the new terms to the Commission for review and approval.

ORDER

IT IS HEREBY ORDERED that the Application of Idaho Power Company for approval of the purchase of energy from USG Oregon, LLC, Neal Hot Springs Unit No. 1 geothermal generation facility is approved. Purchases of energy from the Neal Hot Springs Unit No. 1 generation facility will be allowed as prudently incurred expenses for ratemaking purposes, and may be recovered in Idaho Power's annual PCA until the Company's next general rate case.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this case may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this case. 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 20th
day of May 2010.


JIM D. KEMPTON, PRESIDENT


MARSHA H. SMITH, COMMISSIONER


MACK A. REDFORD, COMMISSIONER

ATTEST:


Jean D. Jewell
Commission Secretary

bls/O:IPC-E-09-34_ws2