

RICHARD A. CUMMINGS, ISB #1815
DAVID W. LLOYD, ISB #5501
CUMMINGS LAW OFFICES
412 East Parkcenter Boulevard, Suite 325
P.O. Box 1545
Boise, Idaho 83701
Telephone: (208) 367-0722
Facsimile: (208) 367-0892
Email: rcummings@cummingslawidaho.com
dllloyd@cummingslawidaho.com

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 IDAHO PUBLIC
 UTILITIES COMMISSION

Attorneys for High Mesa Energy, LLC

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE)	Case No.: <u>IPC-E-11-26</u>
APPLICATION OF IDAHO POWER)	
COMPANY FOR A DETERMINATION)	REPLY COMMENTS OF HIGH MESA
REGARDING ITS FIRM ENERGY SALES)	ENERGY, LLC, TO COMMISSION
AGREEMENT WITH HIGH MESA)	STAFF COMMENTS
ENERGY, LLC.)	
)	
)	
)	

COMES NOW, High Mesa Energy, LLC, by and through its attorney of record, Richard A. Cummings, and offers its Reply Comments to the Comments of the Commission Staff.

INTRODUCTION

Idaho Power Company (“Idaho Power”) and High Mesa Energy, LLC (“High Mesa Energy”), entered into a 20-year Firm Energy Sales Agreement (“Agreement”) on November 16, 2011. Idaho Power filed an Application with the Commission on November 22, 2011, requesting approval of the Agreement.

The Agreement was arrived at through arms-length negotiation between Idaho Power and High Mesa Energy based on Idaho Power’s practices and the parties’ current understanding of the Commission’s directives. The Staff has recommended a rejection of the Agreement based on what would be significant policy, methodology, and input factor changes for the avoided cost

calculations. Since the changes suggested by Staff in justifying its recommendation to reject the Agreement are so fundamental and far-reaching, we assume the Commission still considers it more appropriate to address these issues in the pending Case No. GNR-E-11-03.¹

CCCT V. SCCT AS BASIS FOR COMPUTING CAPACITY VALUE

The only proposed change in methodology that Staff quantified was the use of the Combined Cycle Combustion Turbine (“CCCT”) in Idaho Power’s IRP model rather than the Single Cycle Combustion Turbine (“SCCT”) proposed by Staff. Staff concludes that this would drop the levelized price from \$56.43 to \$53.47 per MWh.² While a different conclusion may be reached in Case No. GNR-E-11-03, at the time the Agreement was negotiated, signed, and filed for approval, the parties relied on the Commission’s Order in Case No. IPC-E-95-9 adopting what is now referred to as the IRP methodology and the Commission’s consistent approval of using CCCT capital costs in applying the methodology.

In approving the rates for both the Interconnect Solar and Rockland Wind agreements, the Commission recognized that it is still appropriate for Idaho Power to use the CCCT for avoided capital cost in calculating IRP base rates.³ A change of this fundamental input in the IRP modeling for High Mesa Energy would run counter to the Commission’s long-standing practice for calculation of avoided cost rates for PURPA projects.

NO CAPACITY VALUE IS CAPTURED IN AURORA ENERGY PRICES

The Staff Comments express their belief that there is some capacity value included in the prices forecast by the AURORA model. This is wrong. In the energy dispatch mode, which

¹In rejecting intervention by Grandview PV Solar in the Interconnect Solar case (IPC-E-11-10), the Commission held “it is through Case No. GNR-E-11-03 that the Commission intends to address the larger issues surrounding the avoided cost calculations and methodologies.” IPUC Order No. 32350, p. 2.

²Staff Comments at p. 6.

³In approving the Rockland contract, the Commission noted that application of this methodology “[is] consistent with the Commission requirement for projects larger than 10 MW.” IPUC Order No. 32123, p. 1.

Idaho Power's Application states that it used, it is only forecasting the marginal or incremental costs that Idaho Power would incur. This forecast has nothing to do with the cost a supplier of the energy would incur.

Staff is unable to quantify the component of the price that may represent capacity value because that would be derived from the supplier's cost in providing the energy and not Idaho Power's marginal cost to acquire the energy. The supplier's costs are not uniform and will vary with a variety of factors, including its efficiency, how much unused capacity it has at the time the energy is being provided, and the cost for its variable inputs.

While the Staff is not advocating a specific adjustment for this factor, High Mesa Energy disagrees that "... an alternative position to the assumptions made by Idaho Power exists."⁴

FAILURE TO RECOGNIZE NEED FOR NEW CAPACITY

Although Staff criticized Idaho Power's calculation as failing to recognize whether and when Idaho Power actually has a need for new capacity, they also acknowledged, "In the case of wind projects, however, because they provide minimal capacity anyway, the failure to recognize need for new capacity and rate computations has a relatively minor effect."

USE OF 2009 IRP ASSUMPTIONS VERSUS 2011 IRP ASSUMPTIONS

The Staff acknowledges that at the time the modeling was done by Idaho Power, the Agreement was signed, and the Application was filed, the 2011 IRP had not yet been approved. It appears that Staff is not recommending the Agreement be rejected because the 2009 IRP assumptions were used, but rather suggesting the 2011 IRP should be used if there were other reasons to justify rejection.

WEIGHTED COST OF CAPITAL USED IN IDAHO POWER ANALYSIS

Idaho Power used the Weighted Cost of Capital incorporated into the 2009 IRP. While the last general rate case (IPC-E-11-08) used 7.86% as the cost of capital rather than the 7%

⁴Staff Comments, p. 7.

rate used in the 2009 IRP, Staff acknowledges the difference in capital cost would only cause the rate to be “lowered slightly.”⁵

ESCALATION OF PRICES FROM 2030 TO 2032

Although Staff commented on the extrapolation of rates beyond 2029, “Staff does not object to it.”⁶

OVERALL IMPACT OF ALL STAFF PROPOSED ADJUSTMENTS

ON CONTRACT RATES

Staff concludes that the net effect of the changes it proposes would be to decrease the proposed rate by 5% or approximately \$3.00 per MWh. This is the change attributable to using an SCCT rather than a CCCT to determine capacity cost. As discussed earlier, there is certainly no consensus that this change is appropriate and is better left for consideration in Case No. GNR-E-11-03.

Staff had no objection to dividing ownership of the Renewable Energy Credits (“RECs”) between High Mesa Energy for the first ten (10) years and Idaho Power for the last ten (10) years.

CONCLUSION

Although Staff has recommended rejection of the Agreement, it appears to recognize that the negotiations between Idaho Power and High Mesa Energy were a good faith attempt to implement the Commission’s objectives:

Staff recognizes that the assumptions and analysis techniques employed by Idaho Power in developing the rates in the Agreement may reflect past practice and the Company’s current understanding of the IRP methodology. Furthermore, Staff recognizes that there is considerable room for negotiation, and that such flexibility has been exercised in this case.⁷

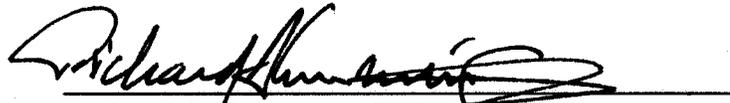
⁵Staff Comments, p. 8.

⁶Staff Comments, p. 8.

⁷Staff Comments, p. 10.

High Mesa Energy requests that the Commission consider this Agreement from the same vantage point as Rockland and Interconnect Solar. It is an agreement, perhaps an imperfect agreement, but an agreement that nevertheless is “both feasible for the Developer and favorable to Idaho Power customers”⁸ and therefore should be approved.

DATED This 2nd day of February, 2012.


Richard A. Cummings
Attorneys for High Mesa Energy, LLC

⁸Order No. 32125, p. 6.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY That on the 2nd day of February, 2012, a true and correct copy of the within and foregoing document was served on the parties to this action in the manner set forth opposite their names:

Commission Staff
Kristine Sasser
Deputy Attorney General
Idaho Public Utilities Commission
472 West Washington (83702)
P.O. Box 83720
Boise, Idaho 83720-0074

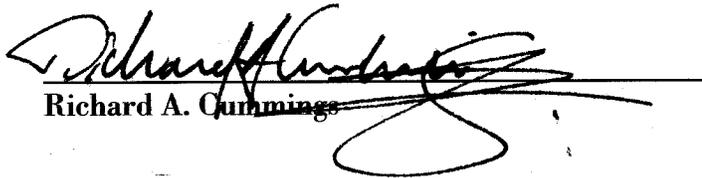
U.S. Mail, postage prepaid
 By Hand Delivery
 By Facsimile
 By Overnight Courier
 Email: kris.sasser@puc.idaho.gov

Donovan E. Walker
Jason B. Williams
Idaho Power Company
1221 West Idaho Street (83702)
P.O. Box 70
Boise, Idaho 83707

U.S. Mail, postage prepaid
 By Hand Delivery
 By Facsimile (388-6936)
 By Overnight Courier
 Email: dwalker@idahopower.com
jwilliams@idahopower.com

High Mesa, LLC
c/o Exelon Wind
4601 Westown Parkway, Suite 300
West Des Moines, Iowa 50266

U.S. Mail, postage prepaid
 By Hand Delivery
 By Facsimile
 By Overnight Courier
 Email: URPS@exeloncorp.com


Richard A. Cummings