

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSION SECRETARY
COMMISSION STAFF**

**FROM: KRISTINE SASSER
DEPUTY ATTORNEY GENERAL**

DATE: DECEMBER 27, 2013

**SUBJECT: IDAHO POWER'S APPLICATION TO UPDATE ITS WIND
INTEGRATION RATES AND CHARGES, CASE NO. IPC-E-13-22**

On November 29, 2013, Idaho Power Company filed an Application with the Commission seeking to update its wind integration rates and charges. The Company's Application includes a 2013 Wind Integration Study Report as well as the supporting testimony of Philip DeVol and Michael J. Youngblood.

THE APPLICATION

Idaho Power reports rapid growth in wind generation over the past several years. Idaho Power maintains that it currently manages a total of 678 megawatts (MW) of wind generation capacity on its system – 577 MW of capacity are provided by Public Utility Regulatory Policies Act (PURPA) projects and an additional 101 MW of wind generation capacity is provided by a non-PURPA project (Elkhorn Valley Wind Farm). Idaho Power states that 505 MW of its total wind generation capacity has been added to the Company's system during 2010, 2011, and 2012.

Idaho Power's Application maintains that, due to the variable and intermittent nature of wind generation, the Company must modify its system operations to successfully integrate wind projects without impacting system reliability. Idaho Power explains that it must provide operating reserves from resources that are capable of increasing or decreasing dispatchable generation on short notice to offset changes in non-dispatchable wind generation. The effect of having to hold operating reserves on dispatchable resources is that the use of those resources is

restricted and they cannot be economically dispatched to their fullest capability. Idaho Power states that this results in higher power supply costs that are subsequently passed on to customers.

Idaho Power asserts that its capability to integrate wind generation is nearing its limit. The Company maintains that, even at the current level of wind generation capacity penetration, dispatchable thermal and hydro generators are not always capable of providing the balancing reserves necessary to integrate wind generation. Idaho Power states that this situation is expected to worsen as wind penetration levels increase, particularly during periods of low customer demand.

The Company states that it considers the cost of integrating wind generation in its integrated resource planning when evaluating the costs of utility and third-party generation resources. Idaho Power maintains that the costs associated with wind integration are specific and unique for each individual electrical system based on the amount of wind being integrated and the other types of resources that are used to provide the necessary operating reserves. The Company explains that, in general terms, the cost of integrating wind generation increases as the amount of nameplate wind generation on the electrical system increases. Idaho Power asserts that a failure to calculate and properly allocate wind integration costs to wind generators when calculating avoided cost rates impermissibly pushes those costs onto customers.

The Company discusses three separate methods by which wind integration costs could be accounted for in avoided cost rates.

- 1) Maintaining current allocation;
- 2) Current allocation with an integration tariff; and
- 3) Equitable allocation of costs.

The Company proposes two overall changes, which have been incorporated into each of the three methods offered above, to address the collection of wind integration costs. Change one abandons the use of percentage of avoided cost rate allocation and instead allocates a fixed amount based upon penetration level. Change two decouples the wind integration charge from the avoided cost rate contained in the power sales agreement and instead has wind integration costs assessed as a stand-alone tariff charge.

Idaho Power asserts that the costs associated with wind integration are currently under-collected. The costs are assessed on a percentage basis of various avoided cost rates,

which results in an inequitable contribution of the various wind QFs to the cost of integrating wind on the system.

The Company states that the use of the percentage of avoided cost rates really has no relation to actual costs of the additional reserves necessary to integrate variable and intermittent resources on the system. Idaho Power further maintains that setting the amount of wind integration charge for the entire duration of the power sales agreement assures further under-collection of integration costs as those costs rise. The under-collection from existing wind QFs results in an additional allocation to new wind QFs.

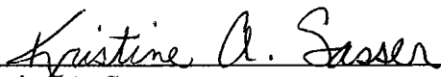
Idaho Power requests that its Application be processed by Modified Procedure.

STAFF RECOMMENDATION

Staff has reviewed Idaho Power's Application and recommends that the matter be processed by Modified Procedure. Staff further recommends that the Commission allow parties who claim a direct and substantial interest to intervene. After the deadline for intervention has passed, Staff will convene an informal conference with the parties and recommend further procedure to the Commission.

COMMISSION DECISION

Does the Commission wish to issue a Notice of Application setting a 21-day deadline for intervention?



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Deputy Attorney General

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