DECISION MEMORANDUM

TO:COMMISSIONER NELSON

COMMISSIONER SMITH

COMMISSIONER HANSEN

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STEPHANIE MILLER

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GARY RICHARDSON

WORKING FILE

FROM:SUSAN HAMLIN

DATE:NOVEMBER 20, 1995

RE:CASE NO. IPC-E-95-16

FIRST AMENDMENT TO POWER SALES AGREEMENT WITH LS-LQ HYDROELECTRIC PARTNERS

PIGEON COVE HYDRO PROJECT

On October 10, 1995, Idaho Power Company (Idaho Power; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting approval of an Amendment (attached) to Power Sales Agreement (Agreement) between Idaho Power and LS-LQ Hydroelectric Partners’ (Seller).  Pigeon Cove Power Company was the original signatories to the Agreement who assigned it to Bonneville Pacific Corporation, who than subsequently assigned the same to LS-LQ Hydroelectric Partners.  The project shall continue to be known as Pigeon Cove hydro project.

The Pigeon Cove hydro project is a 2,000 KW facility located in the SW Quarter of Section 16, Township 9 South, Range 16 East, Boise Meridian, Twin Falls County, Idaho.  The annual net energy production is 10,216,700 kWh.  The underlying Agreement, dated May 11, 1983, was approved by the Commission in Order No. 15746.   The Agreement is for a 35 year term.

AMENDMENT

The proposed Amendment dated October 5, 1995, incorporates several changes that have occurred since the Agreement was first signed:

●As a substitute for the Agreement requirement of valued loss of income insurance (reference Agreement ¶ 13.2.2) the Amendment, to provide security for the levelized rate payment obligation, incorporates various security provisions of Commission Order Nos. 21690 and 21800 of the -292 security case and the insurance requirements of Order No. 25240.  Reference Agreement, Article I:  Definitions  ¶ ¶ 1.16 “Replacement Costs” (new), 1.18 “Total Costs of the Facility”; Article XII Indemnification and Insurance; Article XXVI Additional Terms and Conditions; Article XXVIII Security (new); and Appendices F - Lump Sum Refund Payment and G - Engineers certificate.

●A modification to method of the repayment after the initial period adjustment has lapsed.  The end of the initial period for repayment occurred October 31, 1994 and the amount to be repaid over the next seven-year period  is $2,924,565.84.  The Seller has represented that the $34,816.26 monthly repayment amount is too costly for the project to continue operations.  The Seller has asked and Idaho Power has agreed to extend the repayment period from seven years (84 month) period to 15 years (180 month) period on an equivalent present value basis.  The Seller has agreed, quid pro quo, to accept a reduction in the avoided energy costs from the current 24.65 mills/kWh to 21.43 mills/kWh with any future adjustment to be in the same percentage as any change to Idaho Power’s Schedule 89.  Reference Agreement, Article VI:  Sale of Power; Article VII: Purchase Price and Method of Payment; Adjustment,  ¶ 7.1; Article XX: Default and Notice ¶ 20.2 “Seller Permanent Curtailment” (substitutes in whole); Appendix A Table 1 (substitutes in whole); and Appendix A, Table 2 (new).

●There are minor changes to the certificate of Notice. Reference Agreement, Article XXV:  Notices.

●There are minor changes to the Generation Scheduling and Reporting Methodology.  Reference Agreement, Article XXVI:  Additional Terms – Appendix E, Appendix D - Generation Scheduling and Reporting ¶ ¶ D-9.1-9.2, and Appendix E - Engineers Certificate.

●Finally, the Amendment incorporates Appendix B which was omitted from the original Agreement.  Reference Agreement, Article XXVI:  Additional Terms and Conditions – Appendix B.

The Company requests that the first Amendment be approved and that all costs relating thereto be allowed to Idaho Power as prudently incurred as expected for ratemaking purposes.

STAFF ANALYSIS

Staff has reviewed the filings of record in Case No. IPC-E-95-16, the underlying Agreement, and has reviewed the Commission’s Order approving same.  Based upon Staff’s review, the following  recommendations are made:

Security Requirements

Staff has determined that the change in security requirements is acceptable.  The new security requirements conform with Order Nos. 21690 and 21800 of this “security case” (U-1006-292).  As Valued Loss of Income Insurance has become unavailable to developers, similar changes have become standard with other recently amended contracts.

Modified Repayment Schedule

Staff has determined that the modification to the repayment schedule is acceptable.  The original contract contains what are sometimes referred to as “clawback” provisions.  This means that the project is paid contractual rates for the first ten years of the contract, but the rates paid are compared to what would otherwise have been paid if the rates subsequently established by the Commission would have been in effect instead.  Idaho Power keeps track on a monthly basis of the difference between the rates actually paid and the rates in effect at any point in time.  The contract requires the developer to begin repaying the accumulated overpayment amount starting in year ten of the contract.  The amendment extends the repayment period from seven years to fifteen years.

The original agreement requirement repayment over seven years at zero percent interest.  Since Idaho Power has agreed to extend the repayment period, they have calculated a fifteen year repayment schedule that has the same present value at 12.06% interest.  In effect, Idaho Power earns interest on the debt for the period they have agreed to extend the contract.  The total accumulated interest over the fifteen-year repayment period will be $2,283,711.

As an additional consideration for extending the repayment period, the parties have negotiated a reduction in the energy component of the avoided cost rate.  The current energy component is 24.65 mills/kWh (Schedule 89, based on Valmy I variable and fuel costs).  The reduced rate agreed upon by the parties is 21.43 mills/kWh.  As far as Staff can determine, this is strictly a negotiated reduction, with no other basis for the reduction.  In the future, the energy component of the payment will be based on the same percentage reduction in Schedule 89 rates (e.g., 21.43/24.65 = 0.869, or 86.9% of Schedule 89 rates).  Assuming no future changes in Schedule 89 rates, the value of the reduction to Idaho Power over the remaining life of the contract is $259,203.

Minor Changes

Staff has determined that the minor changes to the Agreement are acceptable.

Conclusion

In summary, based on Staff’s review the terms of the First Amendment, it finds the amended terms to be reasonable and in conformance with prior Commission Orders. Staff recommends Commission approval.

COMMISSION DECISION

(1)  Does the Commission find the amended terms reasonable and acceptable?

(2)  Does the Commission find associated costs to be prudently incurred expenses for ratemaking purposes?  If so, should the Amendment be approved?  By Minute Entry?

(3)  If not, how does the Commission wish to process this Application?

Susan Hamlin

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