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September 13, 2005

Ms. Jean Jewell, Secretary  
Idaho Public Utilities Commission  
472 W. Washington  
P.O. Box 83720  
Boise, Idaho 83702

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IDAHO PUBLIC  
UTILITIES COMMISSION

Re: In the Matter of the Application of PacifiCorp for the Approval of a Power Purchase Sale Agreement for the Sale and Purchase of Electric Energy Between PacifiCorp and Schwendiman Wind LLC, Case No. PAC-E-05-09

Dear Ms. Jewell:

I would like to express my support for the Schwendiman Wind Farm and the contract currently before the Idaho Public Utility Commission for approval. That contract is good for the utility and good for the developer, but most of all good for the ratepayers.

What is now being evaluated is the result of several months of negotiations between Pacificorp and Schwendimans to come up with a fair contract utilizing the published avoided cost rates for Qualifying Facilities in Idaho. Federal law establishes that the utility is required to purchase energy from this project. Since the rates are established by the Commission and set forth as the published avoided cost rates, the key elements for discussion are the contract terms.

This contract with Pacificorp is new and Pacificorp has not entered into contracts with other PURPA projects in Idaho since the early 1990s. A lot has changed since then, but the PURPA law has not in regards to the utility requirements. This contract has many differences from the existing Idaho Power PURPA contracts. There are four key differences, however, that make it better.

1. It does not have a 90/110 performance band requiring the project developers to predict the wind three months ahead of time and severely penalizing the developer if the predictions are wrong. This contract structure existing uniquely in Idaho Power contracts provides the greatest penalty if the wind is below the estimate and the project underproduces according to its predictions. This contract provision benefits the utility most to the disadvantage of the ratepayer and the pain of the developer. To put it simply - the greatest penalties occur to the developer when market energy prices are low, the project underproduces, and the utility buys cheap energy on the spot market. In that scenario the ratepayer and the utility are better off, but the developer gets a lower price for all the power produced that month, not just the shortfall. On the other hand when market energy prices are high, this structure provides no penalty to the developer when the ratepayer is worse off due to extra expenses. In that scenario, the ratepayer has to pay

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a premium, but the developer has no penalty. This structure is exacerbated by the fact that wind energy production according to existing data may vary at a single site by less than +/- 10% on an annual basis but by more than +/-24% on a monthly basis. Thus, accurate monthly predictions may not even be a possibility to the extent required by the contract and hence the only logical solution is for the developer to underpredict the output and hope market prices are high. (Which they have been fairly consistently this year, well above the PURPA published avoided cost rates.) Note that any such prediction in reality provides no element of "firmness" in resource – only a possibility for a penalty. The wind will be what it is regardless of predictions. Furthermore, as any Idaho farmer can tell you, an accurate "right-on" prediction for the weather in March of 2006 for instance may have no bearing whatsoever in the actual output for March of 2007. In Idaho, we find the spring winds of March, April, and May are always substantial. We just don't know if the "spring winds" will start early in March or later. This 90/110 prediction requirement could result in substantial risk to the developers for the most productive times, yet ultimately provide no benefit to the ratepayers.

2. This contract between Schwendiman and Pacificorp on the other hand does require the developer to predict the wind resource and continuously update predictions striving for the greatest accuracy for Pacificorp's energy planning purposes. Since there is not a penalty on their forecasting accuracy, the project will make the most accurate predictions possible. This type of forecasting makes sense since the developer and the utility can work hand-in-hand to come up with the best modeling. It is thus in everyone's best interest to develop long term modeling solutions which will lead to accurate energy predictions on annual, monthly or even as we see the industry now heading into "hour ahead" forecasting for wind project output.
3. This contract has "availability" requirements and documentation of performance providing serious penalties to the developer if the maintenance of the plant is below specified standards. This serves the ratepayer far better than a penalty on forecasting weather. It also provides a very real incentive to make sure the project is well maintained for the full 20 year life of the contract. Since all of the energy produced by this project is promised to Pacificorp, that provides an element of "firmness" to this contract which cannot be taken away. Furthermore, those firm prices listed in the contract now as per the Commission's orders would appear to be a most excellent rate 20 years from now compared to where we are seeing energy prices even currently, nevermind where we fear the market prices may be in the longer term future.
4. This contract has an "on-line" date with severe penalties to the developer if the project is not built by a certain date. In contrast to other contracts which can be delayed eternally, this contract has specific requirements and commitments as an energy resource for Pacificorp. Since there is a "firm" commitment to Pacificorp to an on-line, energy production date for this project, another element of "firmness" is provided.

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Pacificorp clearly believes that wind energy is a valuable source of energy as demonstrated in their purchases of energy from other wind farms. Existing energy prices and future energy cost predictions clearly point out that wind is a valuable resource and the lack of price volatility is a very serious benefit to the utility and the ratepayers. Pacificorp has retained a penalty structure in this contract which is based on availability. Availability is a measure of the powerplant's overall reliability and for this wind power plant is determined by documentation of being on-line and ready to run when the wind is blowing and the "motive force" is present. I spent 11 years working for Idaho Power Company before starting Renaissance as a consulting company. One of the key complaints about PURPA projects was reliability. In discussions with Pacificorp, that was a key element that came up repeatedly. They wanted to be able to count on this project, knowing and understanding that the wind itself has always been and always will be variable in nature.

In the fall of 2004, as everyone is very well aware, this prediction requirement created by Idaho Power was tested and upheld in a commission hearing. Order 29632 was an Idaho Power case where the commission directed Idaho Power to keep the bandwidth requirement they so earnestly defended in the case. That order allowed Idaho Power to keep such wording in their contracts, but did not, however, direct Pacificorp to create such a bandwidth in their contracts. Even Idaho Power is free to change their future contracts if they find a better solution for the company and the developer that is just and reasonable to the ratepayers. The utility commission has indicated historically that it is not their job to tell the utility how to run their business. They are simply trying to make sure the ratepayers are protected in these agreements since they are expected to pay the costs.

Furthermore, in the published Order Number 29632, commissioner Marsha Smith dissented in her opinion stating:

**"I strongly oppose the 90%/110% performance band proposal of Idaho Power and also do not favor the 80%/120% proposal of the Staff. It is my belief that project developers who sign PURPA contracts have a legally enforceable obligation. The incentive for them is to provide all the power they can. They need to be paid to stay in operation and if they do not produce, they do not get paid and can not pay their bills. The banding proposal operates as a penalty, not an incentive."**

Commissioner Smith was right in her assessment of that language. A wind park cannot produce energy if the wind is not blowing regardless of their predictions. In negotiations between Pacificorp and Schwendiman Wind, this requirement was reviewed extensively and rejected as being incredibly onerous to both parties. Pacificorp did not want to be in a position of policing and evaluating the developer's wind generation predictions.

Pacificorp considers this resource to be an important part of their power supply, though it is a small project in comparison to other generation plants. Pacificorp did require specific language and penalties to the developer on availability instead of predicting the wind. This is a very serious requirement to make sure the equipment is well maintained and available for operation when the wind does blow. The developer cannot generate at will, despite any prediction. However, the developer can make sure the turbines are well maintained and ready for operation.

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This contract provides penalties and reporting requirements for availability of the turbines. Pacificorp wants to incentivise projects to provide accurate generation estimates that can help with planning instead of manipulating predictions to avoid penalties. The developer should not focus on predicting wind and the utility should not focus on monitoring the predictions. Availability on the other hand is an incentive both parties in this agreement have agreed to in the intent to increase reliability. It also is a contractual part of the turbine agreements that manufacturers can be held to during the warranty period. This contract with its incentives and penalties offers greater assurance than using the Idaho Power performance band contract mechanism for the utility, the developer, and the ratepayer. Pacificorp has successfully created a contractual requirement for availability that has a long term effect of increasing the overall reliability of this wind generation resource.

Turbines were and still are the limiting factor in this business. There are many projects in the United States with energy sales contracts and financing possibilities which cannot get turbines for their sites until mid 2007 at this point. Schwendimans have a firm commitment for turbines to be delivered in February of 2006 for a spring construction schedule. Many parts of that project are on hold right now pending favorable outcome and approval of this power sales agreement by the Idaho Public Utility Commission. Idaho needs this energy desperately.

This project is a PURPA Qualifying Facility in Idaho with energy sold to Pacificorp in Idaho and contracted under the standard published avoided cost non-fueled, non-levelized rate schedule. The commission has established what that means and what the rates are to be. The project qualifies for the avoided cost published rates for projects under 10MWa. This project is exactly what PURPA was established for in the first place and should be considered a valuable resource for the state of Idaho.

Thank you sincerely,



Brian D. Jackson, PE MBA CEM