



IDAHO POWER COMPANY
P.O. BOX 70
BOISE, IDAHO 83707

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BY

BARTON L. KLINE
Senior Attorney

SEP 07 2006 8:03

March 7, 2006
PUBLIC UTILITIES COMMISSION

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
P. O. Box 83720
Boise, Idaho 83720-0074

Re: Case No. PAC-E-05-9
Comments of Idaho Power Company

Dear Ms. Jewell:

Please find enclosed for filing an original and seven (7) copies of Idaho Power Company's Comments regarding the above-described case.

I would appreciate it if you would return a stamped copy of this transmittal letter in the enclosed self-addressed, stamped envelope.

Very truly yours,

Barton L. Kline

BLK:jb
Enclosures

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 P. O. Box 70
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 Attorneys for Idaho Power Company

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 IDAHO PUBLIC UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF PACIFICORP FOR APPROVAL OF A)	CASE NO. PAC-E-05-9
POWER PURCHASE AGREEMENT FOR)	
THE SALE AND PURCHASE OF ELECTRIC)	COMMENTS OF IDAHO POWER
ENERGY BETWEEN PACIFICORP AND)	COMPANY
SCHWENDIMAN WIND LLC)	
_____)	

These comments are made in response to the Commission's February 8, 2006 Notice of Joint Motion For Approval of Amended Power Purchase Agreement and Notice of Comment Deadline.

Having reviewed the Amended Power Purchase Agreement ("Schwendiman Agreement") dated January 27, 2006, under which Schwendiman Wind LLC ("Schwendiman") proposes to sell electric energy generated by the Schwendiman Wind Facility to PacifiCorp, Idaho Power believes that it is appropriate to present these comments to the Commission for its consideration.

1. Summary of Comments.

(a) Based on historical data, it appears that the procedure for computing liquidated damages contained in the Schwendiman Agreement has a greater tendency to shift the cost of QF non-performance away from QF developers and onto utility customers than does the liquidated damages provision contained in the multiple QF contracts the Commission has approved for Idaho Power.

(b) Idaho Power recognizes that, for numerous reasons, including promoting uniformity between the multiple jurisdictions in which PacifiCorp operates, PacifiCorp may prefer to structure its QF contracts and the liquidated damages provision in the way that it has in the Schwendiman Agreement. Idaho Power does not object to PacifiCorp seeking approval for a QF contract that includes terms and conditions that are different than those the Commission has approved for Idaho Power QF contracts *so long as* Idaho Power is not required to include the Schwendiman terms and conditions in existing or future Idaho Power QF contracts.

2. Reason for Idaho Power Filing. Idaho Power acknowledges that it is unusual for one utility to file comments directed toward a QF contract signed by another utility and submitted to the Commission for approval. Idaho Power's motivation for providing these comments arises out of the fact that some QF developers have indicated to the Company that they prefer portions of the Schwendiman Agreement, particularly the liquidated damages computation provision in the Schwendiman Agreement, over the equivalent provisions in the QF contracts the Commission has approved for Idaho Power. They have further indicated that, if the Commission determines that the terms and conditions contained in the Schwendiman Agreement are reasonable, then they believe they would be entitled to include the same terms and

conditions the Commission accepted in Schwendiman in existing and future contracts with Idaho Power. As will be discussed in greater detail in these comments, while Idaho Power believes that its liquidated damages provision and its 90%/110% performance band are somewhat more rigorous than the equivalent provisions in the Schwendiman Agreement, PacifiCorp's desire to receive approval for the Schwendiman Agreement is reasonable so long as Idaho Power is not required to modify its existing or future QF contracts to include the Schwendiman approach.

3. Specific Contract Provisions.

(a) Capacity Factor Commitment vs. Energy Amount Commitment. There are a number of differences between the QF contract provisions presented by PacifiCorp in the Schwendiman Agreement and the provisions Idaho Power has included in the QF contracts the Commission has approved for Idaho Power. Most are not material and are consistent with PacifiCorp's intent to maintain uniformity in its contracting processes between its several jurisdictions. For example, the Schwendiman Agreement requires the QF to commit to a particular monthly *capacity factor* rather than the monthly *energy delivery* commitment Idaho Power has included in its approved contracts. Idaho Power's analysis indicates that, in using the capacity factor approach, PacifiCorp ultimately comes up with a monthly energy amount and, as a result, there is no substantive difference between PacifiCorp's approach and Idaho Power's. There are other differences between the Schwendiman Agreement and the QF contracts the Commission has approved for Idaho Power, but they are minor and will not be addressed in these comments.

(b) Generation Outside the 90%/110% Performance Band. One principal difference between the Schwendiman Agreement and the approach Idaho

Power takes in its Commission-approved QF contracts arises out of how liquidated damages are determined if a QF generates outside the 90%/110% performance band. This is the one area where Idaho Power believes that the Schwendiman Agreement may not be quite as “rigorous” as Idaho Power’s approved QF contracts.

In Idaho Power’s approved QF contracts, if the QF generates outside the 90%/110% performance band, liquidated damages are computed using energy purchase prices determined in the same manner as non-firm energy purchase prices are determined under Idaho Power’s Commission-approved Schedule 86, Cogeneration and Small Power Production, Non-Firm Energy. Idaho Power’s Schedule 86 non-firm energy prices are set at 85% of the monthly weighted average of non-firm Mid-C index prices. In Idaho Power’s approved QF contracts, the amounts paid for over-deliveries (above 110%) cannot exceed the contract price.

Under the Schwendiman Agreement, if the QF fails to deliver within the 90%/110% performance band, it is paid the energy component of the contract price but is not paid the capacity component. This payment structure sets liquidated damages at a fixed price for all deliveries outside the 90%/110% performance band. This fixed price is equal to about 80% of the contract price. Market price is not a consideration in assessing liquidated damages in the Schwendiman Agreement.

Using this fixed price structure as the measure of liquidated damages, in months when market prices are less than the fixed price, PacifiCorp customers will pay more than they would have paid under the market-based performance band included in the Idaho Power QF contracts. When market prices are lower than the fixed price, the Schwendiman approach will shift the cost of non-performance from the QF to PacifiCorp’s customers when Idaho Power’s liquidated damages provisions would not.

Historically, Idaho Power's Schedule 86 prices have been lower than 80% of QF contract prices. (See Attachment 1).

Conversely, when market prices are higher than PacifiCorp's fixed price liquidated damage amount, the Schwendiman liquidated damages provisions would result in customers paying less than they would have under Idaho Power's procedure. However, it is Idaho Power's position that, in those circumstances, using market prices is still preferable because Idaho Power is not exposed to a replacement cost risk and should be able to resell the QF's over-deliveries at Schedule 86 prices (85% of market). Under the higher market price conditions, under Idaho Power's approach, QFs will be benefited and customers will not be disadvantaged because the purchase prices are capped at the contract price.

To assist the Commission in analyzing this issue, Attachment 1 to these comments shows a comparison of the two liquidated damages approaches using 2003-2005 actual data.

Certainly Idaho Power can understand why QF developers would prefer a fixed price that limits their exposure when market prices are lower than QF contract prices. Under the Schwendiman price floor concept, when market prices are lower, price risk tends to shift from the QF developer to utility customers. As a result, QFs can adjust their monthly energy delivery commitment amounts in the agreements upward within the 90%/110% performance band with less financial risk, but also with less incentive to set the performance commitment as accurately as possible. Again, this approach subtly shifts risk from the QFs to customers.

4. Uniformity Between Jurisdictions Is A Legitimate Consideration.

Idaho Power recognizes that PacifiCorp operates in several jurisdictions and desires to

utilize a pricing structure for liquidated damages in its QF contracts that provide state-to-state uniformity. In addition, PacifiCorp does not have a filed non-firm purchase tariff like Idaho Power's Schedule 86.

5. Procedural Matters. Idaho Power has no objection to the Commission's determination to utilize modified procedure to process this case and Idaho Power is not requesting a hearing be held on the Joint Motion of PacifiCorp and Schwendiman for approval of the Amended Power Purchase Agreement.

Conclusion

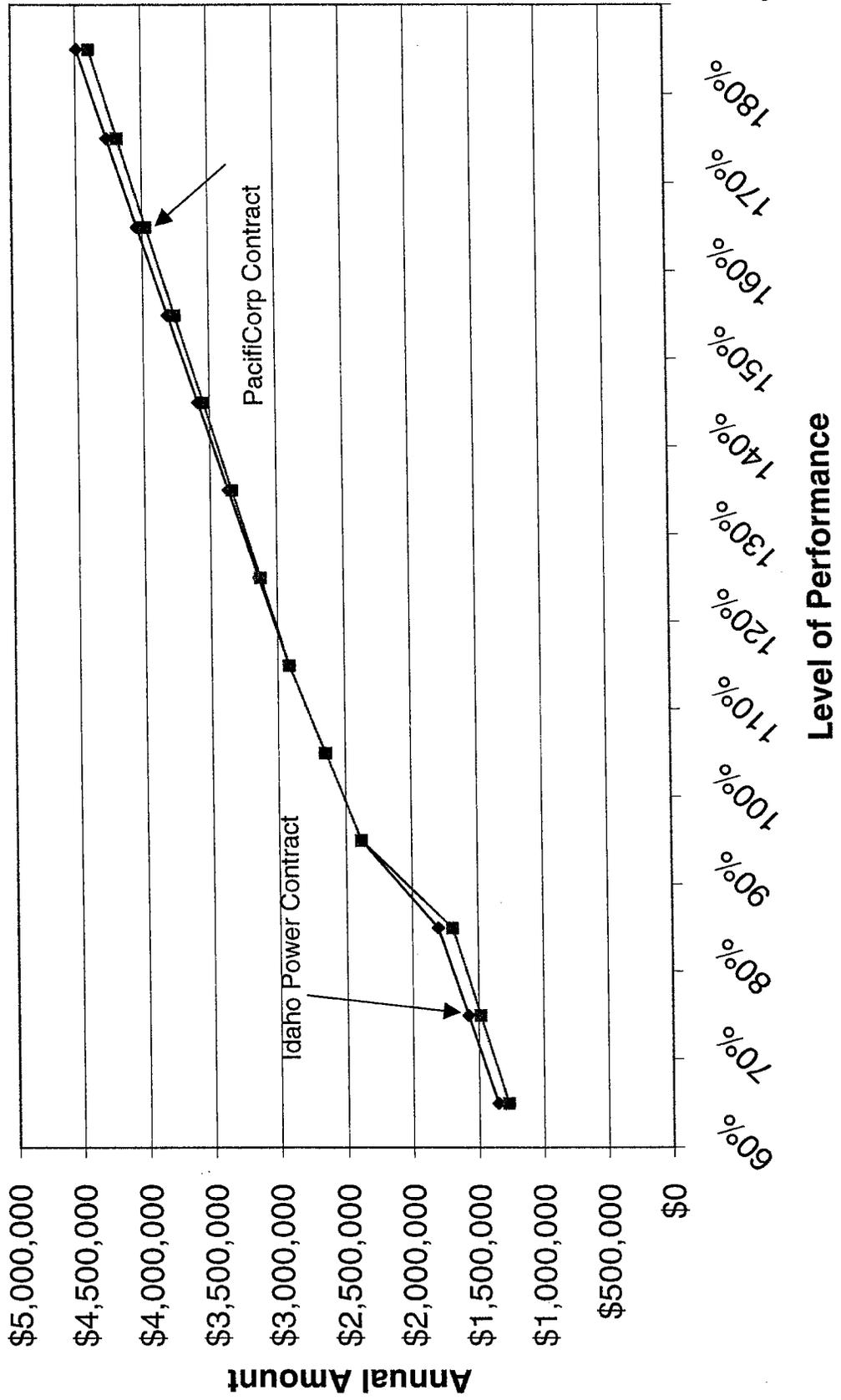
For all of these reasons, if the Commission decides to approve the Schwendiman Agreement, Idaho Power requests that the Commission include language in the order recognizing that the Schwendiman Agreement is not precedential and that other Idaho utilities are not obligated to include the same rates, terms and conditions, including the performance and pricing mechanisms contained in the Schwendiman Agreement in their QF contracts. In particular, Idaho Power requests that the Commission confirm that the 90%/110% performance band and liquidated damages provisions for generation outside that band that the Commission has approved in multiple Idaho Power QF contracts is fair, just and reasonable, and Idaho Power can continue to utilize that pricing arrangement in its contracts with QF developers seeking to sell QF power to Idaho Power.

DATED: This 7th day of March, 2006.



BARTON L. KLINE
Attorney for Idaho Power Company

Contract Comparison - using 2005 IPCo Non levelized Pricing



Idaho Power Company

Cogeneration and Small Power Production

Theoretical Project

Nameplate	20.00 MW
Capacity Factor	30.00%
Annual estimated MWH	52,560

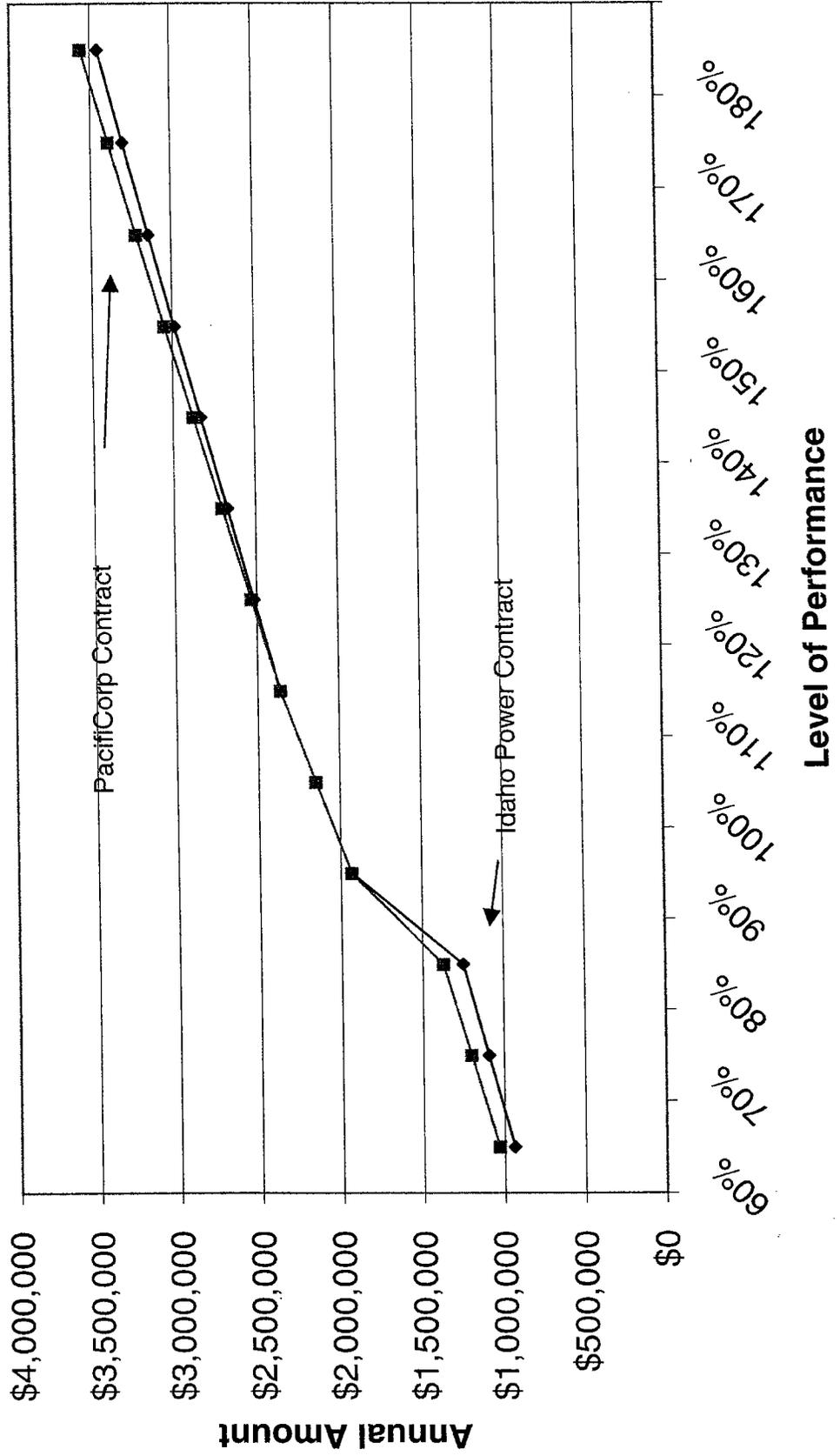
Non Levelized 2005 Prices

<u>Percent of estimated performance</u>	<u>Idaho Power contract payment</u>	<u>PacifiCorp Contract Payment</u>	<u>Difference between Idaho Power contract and PacifiCorp contract</u>
60.00%	\$1,352,079	\$1,270,679	\$81,400
70.00%	\$1,577,618	\$1,482,642	\$94,976
80.00%	\$1,802,899	\$1,694,360	\$108,539
90.00%	\$2,382,904	\$2,382,904	\$0
100.00%	\$2,647,502	\$2,647,502	\$0
110.00%	\$2,912,100	\$2,912,100	\$0
120.00%	\$3,137,638	\$3,124,063	\$13,575
130.00%	\$3,362,919	\$3,335,781	\$27,138
140.00%	\$3,588,458	\$3,547,744	\$40,714
150.00%	\$3,813,698	\$3,759,422	\$54,276
160.00%	\$4,038,939	\$3,971,100	\$67,838
170.00%	\$4,264,477	\$4,183,063	\$81,413
180.00%	\$4,489,758	\$4,394,782	\$94,976

Made use of 2005 Idaho Power Schedule 86 Prices

Jan	\$38.68
Feb	\$40.83
Mar	\$41.10
Apr	\$40.77
May	\$23.38
Jun	\$28.56
Jul	\$35.28
Aug	\$52.71
Sep	\$60.61
Oct	\$67.29
Nov	\$59.95
Dec	\$72.04

Contract Comparison - using 2003 IPCo non levelized pricing



Idaho Power Company
Cogeneration and Small Power Production

Theoretical Project

Nameplate	20.00 MW
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Annual estimated MWH	52,560

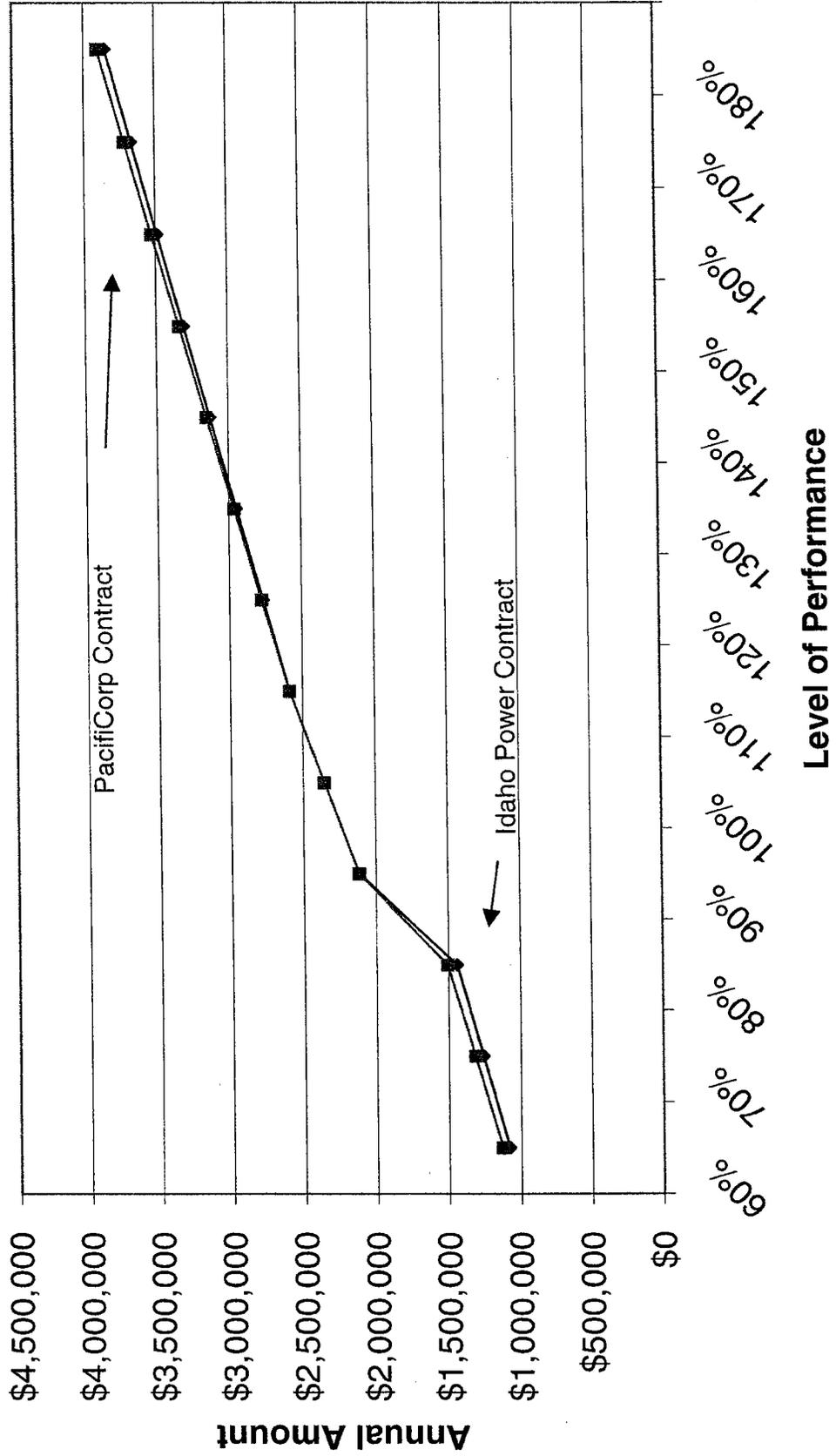
Non Levelized 2003 Prices

<u>Percent of estimated performance</u>	<u>Idaho Power contract payment</u>	<u>PacifiCorp Contract Payment</u>	<u>Difference between Idaho Power contract and PacifiCorp contract</u>
60.00%	\$937,682	\$1,030,122	(\$92,440)
70.00%	\$1,094,100	\$1,201,957	(\$107,857)
80.00%	\$1,250,336	\$1,373,594	(\$123,258)
90.00%	\$1,931,787	\$1,931,787	\$0
100.00%	\$2,146,293	\$2,146,293	\$0
110.00%	\$2,360,798	\$2,360,798	\$0
120.00%	\$2,517,217	\$2,532,634	(\$15,417)
130.00%	\$2,673,452	\$2,704,271	(\$30,819)
140.00%	\$2,829,870	\$2,876,106	(\$46,236)
150.00%	\$2,986,074	\$3,047,711	(\$61,637)
160.00%	\$3,142,277	\$3,219,315	(\$77,038)
170.00%	\$3,298,695	\$3,391,151	(\$92,456)
180.00%	\$3,454,931	\$3,562,788	(\$107,857)

Made use of 2003 Idaho Power Schedule 86 Prices

Jan	\$27.74
Feb	\$32.27
Mar	\$35.77
Apr	\$25.21
May	\$21.22
Jun	\$24.28
Jul	\$37.22
Aug	\$33.07
Sep	\$30.97
Oct	\$27.38
Nov	\$29.04
Dec	\$32.61

Contract Comparison - using 2004 IPCo Non levelized pricing



Idaho Power Company
Cogeneration and Small Power Production

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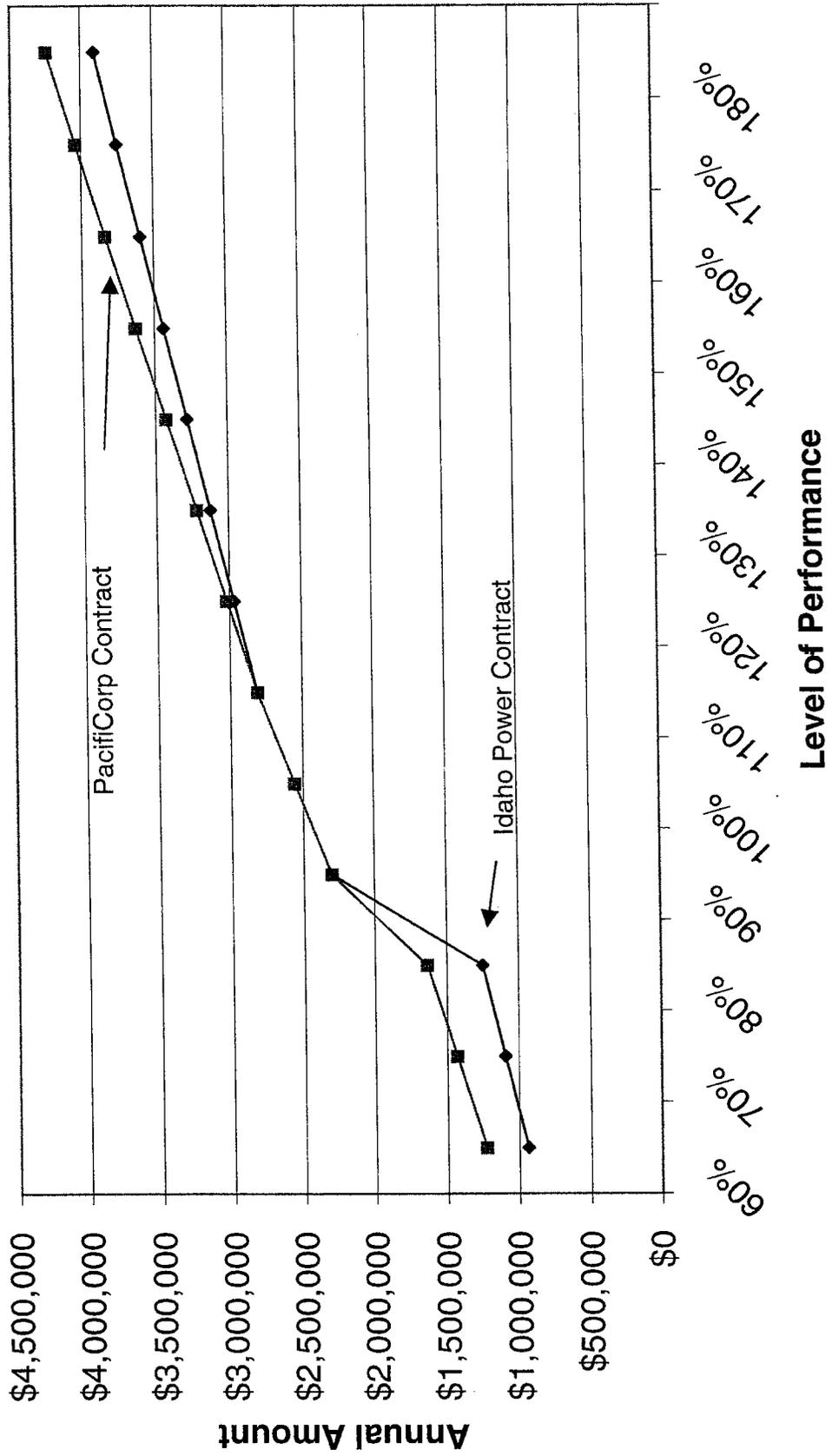
Non Levelized 2004 Prices

<u>Percent of estimated performance</u>	<u>Idaho Power contract payment</u>	<u>PacifiCorp Contract Payment</u>	<u>Difference between Idaho Power contract and PacifiCorp contract</u>
60.00%	\$1,080,713	\$1,129,112	(\$48,399)
70.00%	\$1,260,992	\$1,317,460	(\$56,468)
80.00%	\$1,441,054	\$1,505,591	(\$64,537)
90.00%	\$2,117,424	\$2,117,424	\$0
100.00%	\$2,352,542	\$2,352,542	\$0
110.00%	\$2,587,661	\$2,587,661	\$0
120.00%	\$2,767,940	\$2,776,009	(\$8,069)
130.00%	\$2,948,002	\$2,964,140	(\$16,138)
140.00%	\$3,128,281	\$3,152,488	(\$24,207)
150.00%	\$3,308,312	\$3,340,583	(\$32,271)
160.00%	\$3,488,343	\$3,528,678	(\$40,335)
170.00%	\$3,668,622	\$3,717,026	(\$48,404)
180.00%	\$3,848,684	\$3,905,157	(\$56,473)

Made use of 2004 Idaho Power Schedule 86 Prices

Jan	\$42.25
Feb	\$31.54
Mar	\$31.59
Apr	\$36.19
May	\$31.66
Jun	\$26.25
Jul	\$40.83
Aug	\$30.86
Sep	\$29.76
Oct	\$34.70
Nov	\$39.13
Dec	\$36.06

Contract Comparison - using 2003 IPCo levelized pricing



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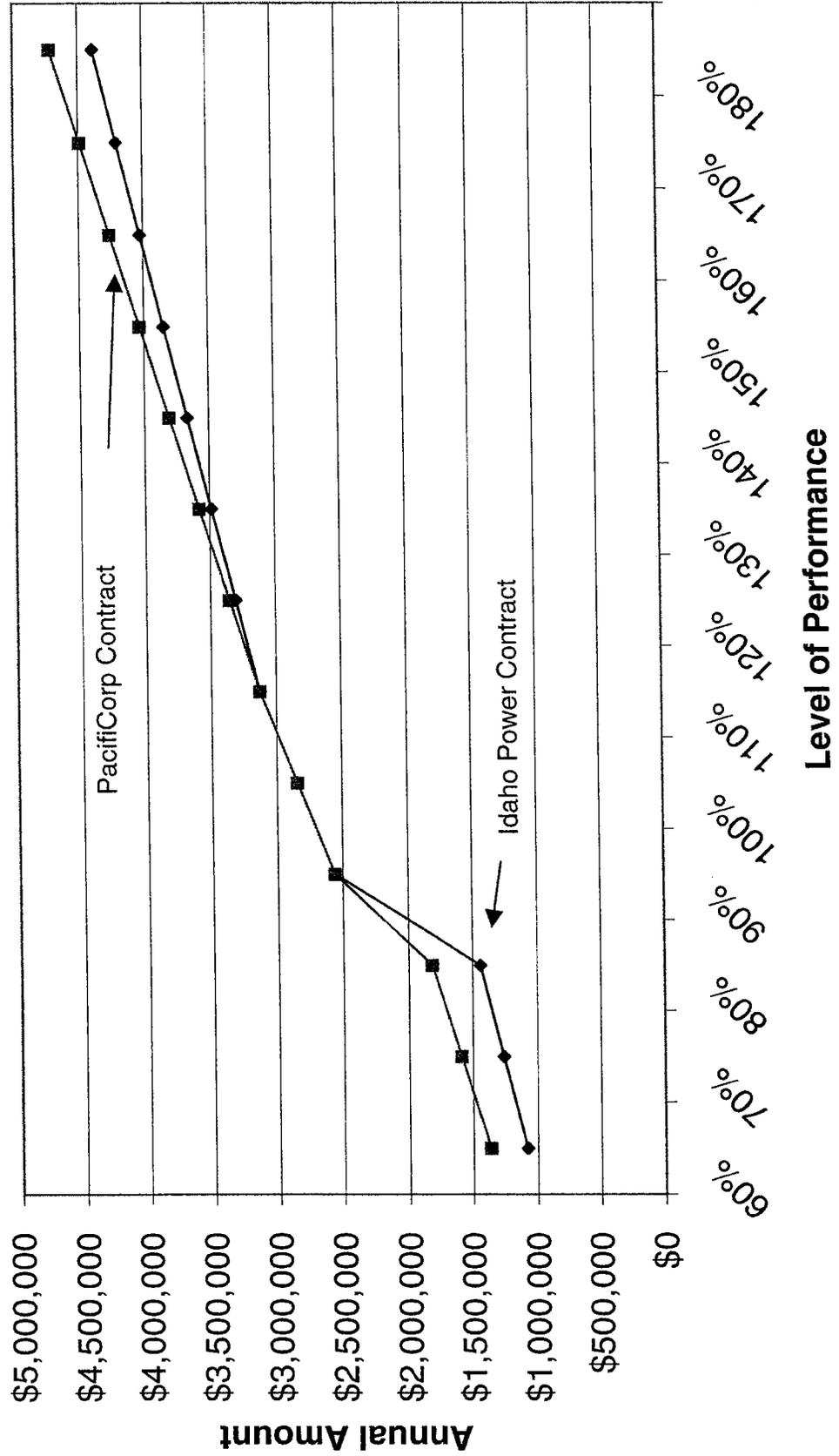
Levelized 2003 Prices

Percent of estimated performance	Idaho Power contract payment	PacifiCorp Contract Payment	Difference between Idaho Power contract and PacifiCorp contract
60.00%	\$937,682	\$1,226,987	(\$289,305)
70.00%	\$1,094,100	\$1,431,662	(\$337,561)
80.00%	\$1,250,336	\$1,636,100	(\$385,764)
90.00%	\$2,300,968	\$2,300,968	\$0
100.00%	\$2,556,468	\$2,556,468	\$0
110.00%	\$2,811,968	\$2,811,968	\$0
120.00%	\$2,968,386	\$3,016,642	(\$48,256)
130.00%	\$3,124,621	\$3,221,081	(\$96,459)
140.00%	\$3,281,040	\$3,425,755	(\$144,716)
150.00%	\$3,437,243	\$3,630,155	(\$192,912)
160.00%	\$3,593,446	\$3,834,555	(\$241,109)
170.00%	\$3,749,865	\$4,039,229	(\$289,365)
180.00%	\$3,906,100	\$4,243,668	(\$337,568)

Made use of 2003 Idaho Power Schedule 86 Prices

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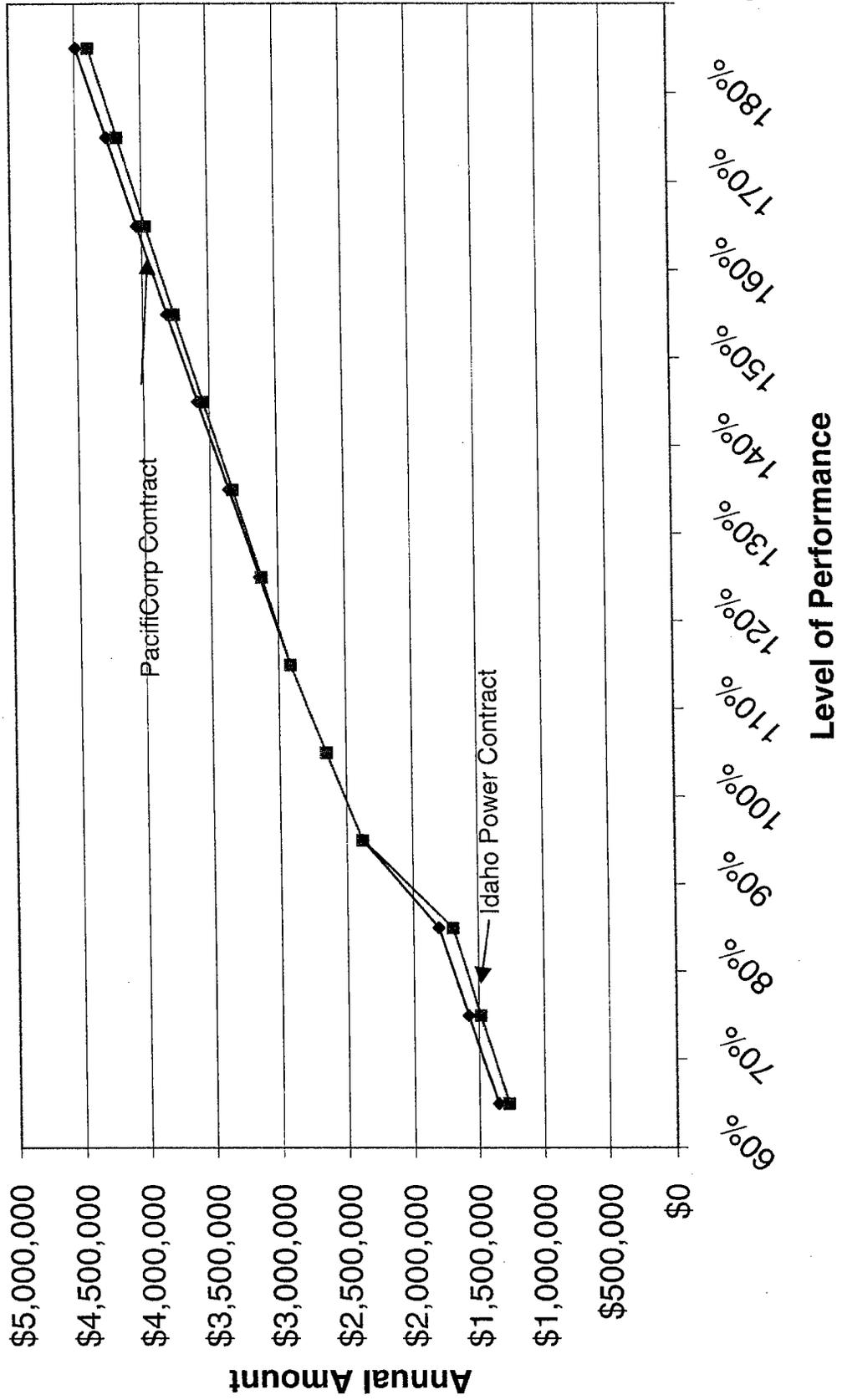
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60.00%	\$1,080,713	\$1,363,824	(\$283,111)
70.00%	\$1,260,992	\$1,591,324	(\$330,333)
80.00%	\$1,441,054	\$1,818,562	(\$377,508)
90.00%	\$2,557,579	\$2,557,579	\$0
100.00%	\$2,841,572	\$2,841,572	\$0
110.00%	\$3,125,566	\$3,125,566	\$0
120.00%	\$3,305,845	\$3,353,066	(\$47,222)
130.00%	\$3,485,907	\$3,580,304	(\$94,397)
140.00%	\$3,666,186	\$3,807,805	(\$141,619)
150.00%	\$3,846,217	\$4,035,000	(\$188,783)
160.00%	\$4,026,248	\$4,262,195	(\$235,947)
170.00%	\$4,206,526	\$4,489,695	(\$283,169)
180.00%	\$4,386,589	\$4,716,933	(\$330,344)

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Aug	\$52.71
Sep	\$60.61
Oct	\$67.29
Nov	\$59.95
Dec	\$72.04

CERTIFICATE OF MAILING

I HEREBY CERTIFY that on the 7th day of March, 2006, I served a true and correct copy of the within and foregoing IDAHO POWER COMPANY'S COMMENTS upon the following named parties by first class mail, and addressed to the following:

Scott Woodbury
Deputy Attorney General
Idaho Public Utilities Commission
472 W. Washington Street
P.O. Box 83720
Boise, ID 83720-0074

Hand Delivered
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 Overnight Mail
 FAX
 E-mail

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