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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF PACIFICORP DBA ROCKY MOUNTAIN POWER FOR APPROVAL OF A POWER PURCHASE AGREEMENT BETWEEN ROCKY MOUNTAIN POWER AND BELL MOUNTAIN HYDRO LLC	**CASE NO. PAC-E-09-09** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Application, Notice of Modified Procedure and Notice of Comment/Protest Deadline issued on December 17, 2009 submits the following comments.

BACKGROUND

On December 4, 2009, PacifiCorp dba Rocky Mountain Power (PacifiCorp; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting approval of a 20-year Power Purchase Agreement between PacifiCorp and Bell Mountain Hydro, LLC (Bell Mountain) dated November 17, 2009 (Agreement). Bell Mountain intends to construct, own, operate and maintain a 290 kW hydroelectric generating facility (Facility) at a location approximately 40 miles north of Howe, Idaho, in Butte and Lemhi Counties. Bell

Mountain warrants that the Facility will be a qualified small power production facility (QF) under the applicable provisions of the Public Utility Regulatory Policies Act of 1978 (PURPA). Agreement ¶ 3.2.6. The estimated annual net generation is 1,102,530 kWh. Agreement, Exh. D. The Facility has been operational since December 1, 2009; however, the Scheduled Commercial Operation Date of the Facility is December 15, 2009.

Agreement ¶ 2.1 provides that the Agreement will not become effective until the Commission has approved all of the Agreement's terms and conditions and declares that all payments PacifiCorp makes to Bell Mountain are just and reasonable and legitimate expenses, all of which the Commission will allow PacifiCorp to recover in rates in Idaho in the event other jurisdictions deny recovery of their proportionate share of said expenses.

STAFF ANALYSIS

With one notable exception, the terms and conditions in the Agreement are similar to other recent PURPA contracts approved by the Commission and are in conformance with prior Commission orders. PacifiCorp will pay Bell Mountain non-levelized conforming energy or non-conforming energy purchase prices for net output adjusted for the month and on-peak/off-peak hours in accordance with Commission Order Nos. 30423 (monthly and daily price multipliers), 30480 (SAR methodology – fuel cost component), and 30744 (Conforming Energy Annual Rates).

The notable exception referred to above relates to the inclusion of an integration discount in the rates to be paid to Bell Mountain by PacifiCorp, and to the corresponding requirement for a mechanical availability guarantee (MAG). Requirements for an integration discount and a MAG are normally reserved for <u>wind</u> generation projects, and are designed to account for the costs associated with the intermittency of the generation. Bell Mountain's project in this case is a <u>hydro</u> facility. The Company proposes use of the wind integration adjustment as a surrogate for hydro.

In accordance with Commission Order No. 29632, non-intermittent PURPA Qualifying Facilities (QFs) (i.e., non-wind or non-solar) are still subject to what has come to be referred to as the "90/110 percent performance band rule." The 90/110 performance band rule was developed to address the firmness issue associated with the intermittent nature of wind. Under the performance band concept, the QF is required to make monthly production estimates.

Energy produced below 90 percent or above 110 percent of the monthly forecasted production is priced at a discount equal to 85 percent of the market or contract price, whichever is less. This discounted pricing scheme serves both as an incentive for the QF to make the most reliable estimates possible as well as a means of compensating the utility when the QF delivers less reliable or non-firm energy.

Nearly all hydropower facilities subject to the 90/110 performance band have been able to meet it because of known, reliable and consistent water flows available to the project. However, wind facilities, because of the intermittency of the resource, have difficulty meeting this requirement. Consequently, in 2008, upon the completion of wind integration studies by all three regulated utilities, the Commission approved a different set of requirements intended to function as an equivalent substitute to the 90/110 performance band requirement. The result was a combination of a wind integration discount to published avoided cost rates, an 85 percent MAG, and a requirement that wind projects be responsible for contributing a proportionate share of costs incurred for wind forecasting services.

The Bell Mountain facility is a small hydro project that uses water for both irrigation and power production. Water flow is year-round and the irrigation season runs from April to October. The source of the water is two small mountain streams that apparently have poor historical stream flow records. Bell Mountain has the ability to store approximately 10 acre-feet of water in an upstream pond, which is equivalent to about seven hours of generation at the Facility capacity rating. Nevertheless, the project's owner is not confident that he has the ability to predict stream flows accurately enough to satisfy the 90/110 requirements normally imposed on other PURPA hydro facilities. As a result, the project owner sought agreement on contract requirements, similar to requirements for wind projects, that could be considered an equivalent substitute to 90/110 requirements.

The parties, recognizing the intermittent nature of the resource, have agreed as a surrogate to the 90/110 requirement to include a 90 percent MAG and adopt the Company's current $5.10/MWh wind integration cost adjustment. Agreement ¶ 5.1. Note that the 90 percent MAG requirement in the Agreement is higher than the 85 percent MAG requirement for wind projects. Note also that the current $5.10/MWh wind integration cost adjustment is included in the Agreement, rather than some other wind integration adjustment amount as could be approved in a still pending case to adjust PacifiCorp's wind integration charge

(PAC-E-09-07). The submitted Agreement, as reflected in the Application, is the result of negotiation and compromise between the parties.

Staff recognizes that substitution of an integration discount and a MAG represents a deviation from existing Commission orders. However, Staff believes that deviation from prior orders is justifiable in this case because of the very small size of the project (290 kW), and because the proposed rates and contract terms represent an acceptable alternative to the 90/110 requirement. Staff concedes that compliance with the 90/110 percent performance band may be exceptionally difficult to meet for a small hydro project with limited stream flow records. In addition, meeting the 90/110 performance requirements may be burdensome and costly for a very small project due to its forecasting and reporting requirements. Notwithstanding these difficulties, Staff believes that the 90/110 performance band requirements must continue to be enforced for other projects, unless very small projects, similar to this one, are willing to accept a discount to published rates and meet a MAG.

Staff also recognizes that the discount to avoided cost rates proposed in this case is equal to PacifiCorp's current approved wind integration discount. The Company's wind integration discount was developed based on the effects of integrating intermittent wind generation, not based on the effects of intermittent hydro generation. While some of the costs integration for intermittent wind integration may be similar to intermittent hydro generation, no study has been done to analyze hydro specifically. Clearly, the behavior of a wind facility differs from a hydro facility, but the costs of conducting such a study could not be justified for the extremely few potential small hydro projects to which it might apply. In any case, Staff believes that the integration costs for a small hydro facility would likely be no greater than for a wind project, and that applying the wind integration discount to a small hydro project is conservative and reasonable.

RECOMMENDATIONS

Staff recommends approval of the Agreement as submitted. Staff further recommends that the costs incurred by PacifiCorp for purchasing capacity and energy from Bell Mountain be accepted as legitimate expenses. Staff recommends PacifiCorp be allowed to recover in rates in Idaho the appropriate allocated costs under the Revised Protocol.

Because of the unusual circumstances and the very small size of the proposed project, Staff recommends that, should the Commission approve the Agreement, none of the terms and conditions of the Agreement be considered precedential for any future projects.

Respectfully submitted this 8th day of January 2010.

Scott Woodbury
Deputy Attorney General

Technical Staff: Rick Sterling

i:umisc:comments/pace09.9swrps comments

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 8^{TH} OF JANUARY 2010, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. PAC-E-09-09, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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