DECISION MEMORANDUM

TO:COMMISSIONER NELSON

COMMISSIONER SMITH

COMMISSIONER HANSEN

MYRNA WALTERS

TONYA CLARK

DON HOWELL

STEPHANIE MILLER

DAVE SCHUNKE

RANDY LOBB

RICK STERLING

GARY RICHARDSON

WORKING FILE

FROM:SCOTT WOODBURY

DATE:AUGUST 30, 1996

RE:CASE NO.  UPL-E-96-3

POWER PURCHASE AGREEMENT

PACIFICORP/EARTH POWER RESOURCES, INC.

On August 1, 1996, PacifiCorp dba Utah Power & Light Company filed an Application with the Idaho Public Utilities Commission (Commission) requesting approval of a Power Purchase Agreement (Agreement) between PacifiCorp and Earth Power Resources, Inc. (Earth Power).

Earth Power, a Nevada corporation, is the developer of the Lee Generation Project I, a proposed 999 kW stand-alone project located within the boundaries of Section 33, Township 16 North, Range 29 East, MDM, Churchill County, Nevada.  The project site is held under a sublease of geothermal lease N-54514 issued by the Department of Interior, Bureau of Land Management.  As represented, the project is and will continue to be a qualifying facility (QF) as defined in PURPA and related federal statutes (18 CFR Part 292).  Under the terms of the Agreement, Earth Power will arrange for transmission (wheeling) of its power to PacifiCorp at PacifiCorp’s Midpoint Substation in Idaho.  The estimated annual energy production is 8,750,000 kWh.  The scheduled operation date is to occur no later than December 31, 1998.

The Agreement dated June 28, 1996, provides for a 20-year contract term and contains avoided cost rates based on the levelized avoided costs approved by the Commission in Order No. 26135, Case No. UPL-E-95-2.  Utah Power requests that the Commission

a.  Approve the Agreement

b.  Order that all of Utah Power’s costs of purchasing power and energy under the Agreement, as allocated to the state of Idaho, will be allowed as prudently incurred expenses for ratemaking purposes.

Staff Analysis

Staff has reviewed the Power Purchase Agreement submitted in Case No. UPL-E-96-3 and provides the following comments and recommendations:

1.  Staff would prefer that the firm energy prices listed in Agreement Sections 5.1.2 and 5.1.3 be combined into a single non-adjustable rate.  The adjustable portion of 1.65 mills/kWh as listed in Section 5.1.3 was adopted as a starting point for variable O&M in the combined avoided cost case.  An escalation rate for variable O&M of 3.21% was also established at the same time.  The variable rate of 1.65 mills/kWh was thus effective from 1-31-95 to 6-30-95.  Since the rate escalates at a known fixed rate, it can be calculated in advance for the entire life of the contract.  The 20-year levelized variable O&M rate is 2.1853 mills/kWh for a 1997 on-line date and 2.2554 for a 1998 on-line date.  These levelized amounts can be added to the non-levelized amounts in Section 5.12 of the Agreement, making it possible to list only a single firm energy price for each alternative on-line date.  This change would relieve the Commission of having to explicitly change the adjustable rate each year by issuing an Order.

2.  The security requirements in Appendix A should be updated to reflect the insurance coverages which are now available.  The requirements as listed are from Case No. U-1006-292, Order No. 21690, but have been effectively superseded by the requirements in IPC-E-93-22, Order No. 25240.

3.  The repayment schedule, Exhibit A-2, should be recalculated.  The calculations use an interest rate of 10.13% which is from the Company’s RAMPP-4.  The Commission Orders require that the same interest rate be used for calculating repayment obligation as is used to calculate rates using the SAR model.  The model for less than one megawatt rates uses an interest rate of 10.27%, the utility’s weighted cost of capital.

The levelized prices in column 3 are also incorrect.  They use an adjustable amount of 1.65 mills/kWh.  The levelized amounts which should be used are discussed in paragraph 1 above.

4.  Rates contained in the contract are from Order No. 26135 in Case No.  UPL-E-95-2 (rates in effect between 8-30-95 and 6-30-96).

Staff recommends that the proposed changes identified above be addressed by the parties by subsequent amendment.  Staff recommends that the submitted Agreement (as amended) be approved.

Commission Decision

Should the parties be required to amend the Power Purchase Agreement in the manner set forth above?  If not, should the Agreement be approved as filed?  If an amendment is required, should the Commission approve the Agreement with qualifying language?

Scott Woodbury

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