

## DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER  
COMMISSIONER SMITH  
COMMISSIONER HANSEN  
COMMISSION SECRETARY  
COMMISSION STAFF  
LEGAL STAFF**

**FROM: SCOTT WOODBURY**

**DATE: JULY 2, 2003**

**RE: CASE NO. IPC-E-03-08 (Idaho Power)  
CAPACITY/ENERGY PURCHASE AGREEMENT W/PPL MONTANA, LLC  
REQUEST FOR ACCOUNTING ORDER AND PCA RECOVERY**

On May 13, 2003, Idaho Power Company (Idaho Power; Company) filed an Application with the Commission for an Order approving a Power Purchase Agreement (Agreement) between Idaho Power and PPL Montana, LLC (PPL Montana). The Company requests accounting treatment that will allow Idaho Power to include the expenses associated with the purchase of capacity and energy from PPL Montana, LLC in the Company's Power Cost Adjustment (PCA). Included in the Company's filing in this case is the prefiled direct testimony of Gregory W. Said, Director of Revenue Requirement in the Regulatory Services Department of Idaho Power.

Idaho Power in its Application recounts its failed attempt to secure from its affiliate the seasonal energy deficiencies and peak hour transmission constrained deficiencies identified in its 2000 Integrated Resource Plan (IRP). Reference the proposed IdaWest Garnet 250 MW (Middleton) Natural Gas CCT. In the Garnet Report provided to the Commission on October 30, 2002, the Company announced its plan to replace the Garnet Power Purchase Agreement with a combination of firm wholesale purchases and exchanges.

In conformance with the replacement strategy identified in the Garnet Report, Idaho Power reports that it has successfully negotiated a firm wholesale Power Purchase Agreement with PPL Montana, LLC. Contracting with PPL Montana is advantageous, the Company contends, because existing constraints on the west side of Idaho Power's system made power

purchases on the east side of the Company's system preferable. PPL Montana owns and operates eleven hydroelectric plants located in Montana with a generating capacity of 474 MW. PPL Montana also owns and operates 500 MW of coal-fired generating capacity in Montana.

The principal provisions of the Power Purchase Agreement with PPL Montana call for a firm power purchase for the heavy load hours, six days a week, 16 hours a day (6 x 16) in the months of June, July and August. These are the time periods identified in the Company's 2002 IRP as the times of peak resource need on Idaho Power's system. The term of the Agreement is June 1 through August 31 of each year beginning in 2004 and ending in 2009. The quantity of energy purchased is 83 MW per hour, except for the month of August 2004, which shall be 26 MW per hour. The price to be paid for this energy is \$44.50 per MWh. After adjusting for losses, and with the exception of the August 2004 time period, Idaho Power will actually receive approximately 80 MW per hour under the PPA.

The Company contends that the energy costs of \$44.50 are competitive and favorable when compared to alternative resource options. Other energy costs that may be used for comparison, the Company contends, are current avoided costs for energy purchases from small QFs and for market prices with added transmission costs. As reflected in the Company's prefiled testimony,

Idaho Power's current avoided costs for small QFs as determined by the IPUC in Order No. 29124 are based upon a surrogate avoided resource of a 230 MW combined cycle combustion turbine and were set September 26, 2002. The levelized rate for a non-fueled project smaller than 10 MW, coming on line in the year 2004 for a contract length of five years is 43.78 mills/kWh (\$43.78 per MWh). The levelized rate for a 20-year contract (a more likely scenario for a QF contract) is \$49.83/MWh. The PPA rate of \$44.50/MWh for a peak hour summer peak power product compares favorably to non-seasonalized QF contract rates. All of Idaho Power's existing QF contracts use "seasonalized" rates which provide significantly higher purchase prices in the summer months.

On May 8, 2003, forward market bid/offer quotes at Mid-Columbia for Q3 2003, heavy load hours, were \$45.50/MWh and \$46.50/MWh, respectively. Bid/offer quotes for the same quotes at Palo Verde were \$62/MWh and \$64.25/MWh, respectively. With an energy purchase at either of these hubs, additional costs would be incurred for transmission to the Idaho Power system. It should be noted that transmission from Mid-Columbia, if available, would need to be routed through the northern part of the regional inter-connected transmission grid since the Idaho Power transmission system is constrained from the west.

As consideration for PPL Montana's agreement to hold the price in the PPA firm to allow time for Commission review and approval, Idaho Power has paid PPL Montana a deposit in the amount of \$250,000 that is refundable if the Application is approved by the Commission no later than July 12, 2003. If the Commission does not approve the Agreement by that deadline, the Company will forfeit the deposit and either party may terminate the Agreement.

In addition to power costs under the Agreement, Idaho Power states it will purchase monthly transmission service across Northwestern Energy's transmission system to Jefferson. At current rates under Northwestern Energy's open access transmission tariff (OATT), the maximum charge for monthly firm transmission service is \$3.10 per kW of reserved capacity per month.

Idaho Power proposes that costs associated with acquiring firm monthly transmission service from Northwestern Energy's transmission system be booked in FERC Account 565, Transmission of Electricity by Others. These monthly transmission costs will not flow through the Company's Power Cost Adjustment (PCA). Idaho Power proposes that the cost for power acquired through the Montana PPL Agreement be booked in FERC Account 555, Purchased Power, and that the costs upon contract approval flow through the Company's PCA. Until the costs of the contract are included in a general revenue proceeding, any contract costs associated with the Agreement will be considered deviation from the base and, therefore, only 90% of the Idaho jurisdictional costs will be borne by customers.

Idaho Power requests that the Commission issue an Order approving the Power Purchase Agreement between Idaho Power and PPL Montana and approving Idaho Power's requested accounting treatment for inclusion of the power purchase expenses associated with the PPL Montana Agreement in the Company's Power Cost Adjustment.

On May 23, 2003, the Commission issued a Notice of Application and Modified Procedure in Case No. IPC-E-03-08. Reference Commission Rules of Procedure, IDAPA 31.01.01.201-204. The deadline for filing written comments was June 27, 2003. The Commission Staff was the only party to file comments. Staff recommends approval of the Agreement as filed. Staff also agrees with Idaho Power's proposed PCA treatment of power purchase expenses. Staff in its analysis compares the \$44.50 per MWh Agreement energy price with avoided cost rates, the Garnet contract rate, the Company's Mountain Home (Danskin )

project, forward prices and AURORA prices. By all comparisons, Staff concludes that the proposed energy price in the Agreement appears to be reasonable. The proposed price is significantly less than the Commission's avoided cost rates and below costs that would have been incurred under the Garnet contract. The proposed contract rate is also in the range of Idaho Power's forward market prices and slightly below AURORA's predicted market prices. Staff is convinced that the proposed Agreement represents the least cost supply-side option for meeting peak hour summertime load requirements. The proposed Agreement may, it states, in fact be the least cost of any options, either supply-side or demand-side.

Idaho Power's need to acquire power during only heavy load hours during only three months of the year, Staff notes, underscores the rather limited nature of the Company's deficit. Staff strongly believes that a variety of demand-side programs should seriously be investigated to potentially reduce peak summertime loads. Traditional demand-side management, voluntary curtailment programs, interruptible rates and time-of-use rates are just some of the possible mechanisms, Staff contends, that might be employed to reduce or eliminate the Company's need to acquire additional supply-side resources in the future. In addition, Staff states that these types of mechanisms could also reduce the Company's need to operate its Mountain Home (Danskin) plant, a plant whose fuel and variable O&M costs alone far exceed the costs of the proposed PPL Montana contract. Staff believes Idaho Power should make a more sincere effort to consider demand-side options when cost effective and to give proper credit to the ability of demand-side programs to avoid or defer the need to acquire new generation. Staff is concerned that the Company fails to acknowledge and quantify the value of avoiding future peaking generation as a result of peak hour load reduction in its irrigation time of use pilot, despite repeated Staff requests to do so.

Staff notes that in order for power to be delivered, Idaho Power will need to acquire firm monthly transmission capacity from Northwestern Energy. Staff notes industry and media speculation that Northwestern Energy's parent, Northwestern Corporation, could potentially file for bankruptcy. In the event a bankruptcy filing is made, the likelihood is, Staff contends, that Northwestern Energy would retain its assets and continue to operate. Staff believes Northwestern Energy would continue to be required to honor its transmission contracts at FERC-approved rates. Staff also believes that a bankruptcy filing would not cause any delays in Northwestern Energy's ability to sign new transmission contracts or perform under them.

**Commission Decision**

Idaho Power requests that the Commission approve its Power Purchase Agreement with PPL Montana, LLC and authorize recovery of power purchases under the Agreement in its PCA. The Commission Staff concurs with the Company's request. If Commission approval is not obtained prior to July 12, 2003, Idaho Power states that it will forfeit a deposit in the amount of \$250,000. Does the Commission find it reasonable to approve the Agreement and the Company's proposed method of recovery?

---

Scott Woodbury

Vld/M:IPCE0308\_sw