

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR AN) **CASE NO. IPC-E-07-17**
ACCOUNTING ORDER AUTHORIZING)
THE INCLUSION OF POWER SUPPLY)
EXPENSES ASSOCIATED WITH THE)
PURCHASE OF ENERGY FROM RAFT) **ORDER NO. 30485**
RIVER ENERGY I LLC IN THE)
COMPANY'S POWER COST ADJUSTMENT)

On October 5, 2007, Idaho Power Company (Idaho Power; Company) filed an Application requesting an accounting order authorizing the inclusion of all power supply expenses associated with the purchase of energy (13 MW) from Raft River Energy I LLC in the Company's Power Cost Adjustment (PCA) mechanism. The underlying Power Purchase Agreement (PPA) for 13 MW is pursuant to a Company Request for Proposal (RFP) for geothermal resources and is the initial agreement with U.S. Geothermal, Inc. of what will total 45.5 MW of geothermal energy. If the PPA is approved, the Company proposes to rescind an existing Firm Energy Sales Agreement with U.S. Geothermal for 10 aMW (IPC-E-05-1, Order No. 29692) at the same site.

Background

Pursuant to an identified need for geothermal resources first identified in the Company's 2004 Integrated Resource Plan (IRP), Idaho Power issued a Request for Proposal (RFP) on June 2, 2006, for 100 MW of geothermal resource. In February 2007, the Company chose to negotiate power purchase contracts with U.S. Geothermal, Inc., a Boise company with geothermal resources in Cassia County, Idaho.

In its bid, U.S. Geothermal, Inc. proposes to offer a total of 45.5 MW of geothermal energy to Idaho Power and to have those facilities online between October 2007 and January 2011. The parties have negotiated and executed a Power Purchase Agreement (PPA) dated September 24, 2007, for approximately 13 MW of the 45.5 MW of geothermal power from Raft River Energy I LLC, an affiliate of U.S. Geothermal, Inc. The generating facility, known as Raft River Geothermal Power Plant Unit No. 1, is located approximately 15 miles southeast of Malta,

in Cassia County, Idaho. Agreements for the remaining 32.5 MW of power will be submitted to the Commission separately from this filing.

Currently, a Commission-approved Firm Energy Sales Agreement (Agreement) is in place between U.S. Geothermal and Idaho Power for a 10 aMW facility at this identical location (Case No. IPC-E-05-1, Order No. 29692). The approved project is a qualifying facility (QF) under the applicable provisions of the Public Utility Regulatory Policies Act of 1978 (PURPA). If the Commission approves the PPA and authorizes inclusion of the power supply expenses associated with the energy from the Raft River Geothermal Power Plant Unit No. 1 in the Idaho Power PCA, the Company proposes to rescind its December 29, 2004, Agreement with U.S. Geothermal. The proposal is subject to satisfaction by Raft River Energy I LLC of all requirements to attain a first energy date as specified within the PPA.

Power Purchase Agreement — Idaho Power/Raft River Energy I LLC

Raft River Energy I LLC initially guarantees an annual output of 108,186,000 kWh and a 90% capacity factor beginning with the third contract year. The term of the PPA is 25 contract years from the operation date (February 1, 2008). Idaho Power has an option to extend the term of the PPA for an additional period mutually agreeable to both parties. Should Raft River Energy I LLC choose to sell its facility, the PPA provides that Raft River first offer to sell its facility to Idaho Power.

Under the existing PURPA Agreement for this site, the project is restricted to providing 10 aMW of energy to Idaho Power. Energy over 10 aMW (Inadvertent Energy) may be delivered to Idaho Power under the existing PURPA Agreement but no payment is required for this Inadvertent Energy. The actual geothermal equipment and generation unit under this PPA are identical to the equipment being constructed under the current PURPA Agreement. As part of the negotiations for this PPA, and contingent upon Commission approval of this PPA, Idaho Power has agreed to retroactively pay for Inadvertent Energy delivered under the PURPA Agreement. The price for the Inadvertent Energy will be the lesser of either 85% of the weighted average of Mid-C, non-firm on and off peak prices or the monthly PPA price for the applicable months when the Inadvertent Energy was delivered to Idaho Power. If this PPA is not approved by the Commission, the existing PURPA Agreement terms and conditions will remain in effect which include no payments for Inadvertent Energy.

The project is physically connected to the Raft River Rural Electric Cooperative (RREC) electrical system and will wheel its energy across the RREC and Bonneville Power Administration (BPA) transmission systems to deliver its energy to Idaho Power at the Minidoka Substation. The PPA allows and Idaho Power contemplates in the future working with BPA to reduce the BPA transmission costs for this project.

Prices under the PPA will be seasonally adjusted consistent with the seasonality factors currently being used in Idaho Power's PURPA agreements, with the highest rates being paid during the Company's peak energy usage months. The price for energy will start at an annual base rate of \$52.50/MWh, escalating annually at a rate of 2.1% through 2020. For the remaining term, the price for energy will escalate annually at a rate of 0.6% with the resulting energy price in 2032 being \$73.92/MWh. In addition to the energy price, a transmission cost of approximately \$1.75/MWh will be added to determine the total delivered price per MWh.

Idaho Power contends that the energy prices within this PPA compare favorably against the prices contained within the PURPA Agreement for this same location. Because the PPA has a 25-year term while the PURPA Agreement has only a 20-year term, a direct comparison of prices under this PPA to PURPA published avoided costs, the Company states, is not available. However, the current non-levelized PURPA published avoided cost for calendar year 2007 is \$52.69 and if the 20th contract year non-levelized PURPA published avoided cost is escalated at the same rate as previous years, an approximate PURPA price for calendar year 2032 would be \$93.14. In addition to this cost savings, Idaho Power states the PPA includes other provisions that are superior to a PURPA agreement including but not limited to the receipt of renewable energy credits, forecasting and security provisions, and performance assurances.

No payment is required by Idaho Power for energy deliveries over maximum contract amounts. The price paid for all energy delivered includes the value of renewable attributes (green tags or RECs) associated with 3 MW of geothermal generation for the first 10 years of the Agreement. For the remaining 15 years of the PPA, Idaho Power will receive 51% of the green tags associated with 13 MW of geothermal generation.

The PPA requires that Raft River Energy I LLC deliver detailed hourly, daily and weekly forecasting of net energy deliveries to Idaho Power Company. If the project fails to provide timely, reliable and useful forecasts to Idaho Power as detailed and required by this PPA, the PPA contains provisions similar to the 90%/110% delivery provisions contained in the

Company's current PURPA agreements that will become effective and replace the annual performance requirements within this PPA.

The PPA further requires the project to post a \$750,000 security deposit by the end of the third contract year, which will be available for Idaho Power to draw upon in the event damages are assessed against the project. The \$750,000 security deposit is required to be maintained for the full term of the Agreement, which includes replenishment if any withdrawals occur during the term of the PPA.

Cost Recovery

Idaho Power requests full cost recovery of expenses under the PPA through its PCA mechanism. Idaho Power notes that under the Company's current PCA mechanism, the Company recovers only 90% of changes from base level net power supply costs through the PCA for non-PURPA projects with the remaining 10% acting as an incentive for efficiency. The Commission found at that time that it was "appropriate to exclude any future non-CSPP [cogeneration, small power production] firm purchases from the PCA unless the Company has first obtained Commission approval to include them." Order No. 24806 at 23. Unlike typical wholesale power supply transactions done in day-ahead or real-time markets, Idaho Power states that it has gone through an extensive RFP process to identify the geothermal PPA that will provide the best value to its customers. Full recovery of power supply expenses associated with 10 MW of the 13 MW encompassed in this PPA, the Company notes, are already subject to the Commission-approved PURPA Agreement currently in place between Raft River Energy I LLC and Idaho Power at the same facility. Under the new PPA, Idaho Power will continue to purchase the same amount of energy but at a lower cost to customers.

On October 31, 2007, the Commission issued a Notice of Application and Modified Procedure in Case No. IPC-E-07-17. The deadline for filing written comments was December 21, 2007. Comments were filed by Commission Staff and a supporter of geothermal power.

Staff in its analysis discusses the rescission of the existing PURPA agreement (Case No. IPC-E-05-1, Order No. 29692), the Company-identified need for geothermal power and the RFP and bidding evaluation process that resulted in the proposed Power Purchase Agreement. Staff reviews the contract terms and conditions and compares the existing PURPA contract with the proposed Power Purchase Agreement.

On a levelized cost basis, Staff calculates that the rates in the PPA are approximately 4.3% below PURPA rates. In assessing the reasonableness of the price, Staff compares the price also to the cost of geothermal resources in the Company's 2006 Integrated Resource Plan (IRP) – \$56.15/MWh or about 11% lower than the price of the Raft River I PPA. While IRP cost assumptions should be expected to be reasonably accurate, Staff acknowledges that they are still only estimates. Very little geothermal development has taken place so far in the region. Staff believes the prices in the Raft River I PPA are reasonable.

Staff notes that the PPA includes other provisions not contained in the PURPA contract including but not limited to the receipt of renewable energy credits, forecasting and security provisions and performance assurances. Penalties and performance security provisions in the PPA could have been stronger, but staff recognizes that all provisions are negotiated as part of a package.

Staff reviewed the PPA contract terms regarding transmission, generation forecasting, 90/110 performance band, delayed damages, delivery obligation, shortfall damages, performance assurances and renewable energy credits and finds them all to be reasonable. Many of the principal provisions of the PPA, Staff notes, are similar to provisions contained in Raft River's existing PURPA contract. On the whole, Staff believes the PPA is more attractive for both Idaho Power and U.S. Geothermal than the existing PURPA contract.

Regarding the Company-proposed ratemaking treatment, Staff recaps the history of the PCA and recommends that PCA PURPA treatment (i.e., recovery of 100% of PURPA-related costs) be accorded to only the first 10 aMW of generation, i.e., the generation cap in the existing PURPA contract, and that remaining power costs be split 90/10, the PCA treatment accorded non-PURPA projects. Staff recommends that the Company keep track of PPA costs using separate line items in the PCA until PPA costs are included in base rates.

Commission Findings

The Commission has reviewed and considered the filings of record in Case No. IPC-E-07-17 including the proposed September 24, 2007 Power Purchase Agreement between Idaho Power and Raft River Energy I LLC and the related comments and recommendations of Commission Staff. We have also reviewed the existing Firm Energy Sales Agreement with U.S. Geothermal that the proposed PPA would replace. Based on our review of the record we

continue to find it reasonable to process this case pursuant to Modified Procedure. IDAPA 31.01.01.204.

Idaho Power proposes replacing its existing 20-year 10 aMW PURPA contract with a 25-year 13 aMW Power Purchase Agreement. The Company requests full recovery of all PPA costs in its annual Power Cost Adjustment (PCA) mechanism. Staff recommends that the Company be allowed recovery of only 10 aMW at 100% of the PCA expense recovery authorized for PURPA projects. The remaining 3 aMW would be recovered at the 90/10 split for non-PURPA power expense.

The Commission finds that the Company's proposal to replace its existing Firm Energy Sales Agreement with U.S. Geothermal, Inc. with the proposed Power Purchase Agreement with Raft River Energy I LLC is reasonable and in the public interest. The PPA is an RFP-related purchase of geothermal energy based on the need for geothermal resources identified in the Company's 2006 Integrated Resource Plan. The proposed Raft River facility site for the existing and proposed contract is the same and negotiated PPA contract terms are reasonable. The PPA price is less than the existing PURPA contract price thereby providing an associated benefit to the Company and its ratepayers.

The Commission finds the Company's proposal to recover 100% of the Power Purchase Agreement-related costs through its Power Cost Adjustment mechanism to be acceptable only for the first 10 aMW of PPA generation. We acknowledge that the PPA is a replacement for an existing PURPA contract for geothermal energy at the same location and with the same equipment. However, the remaining PPA generation is subject to the PCA treatment accorded non-PURPA projects. We direct the Company to keep track of its Power Purchase Agreement costs using separate line items in the PCA until PPA costs are included in base rates.

CONCLUSIONS OF LAW

The Commission has jurisdiction over Idaho Power Company, an electric utility, pursuant to the authority and power granted it under Title 61 of the Idaho Code and the Public Utility Regulatory Policies Act of 1978 (PURPA).

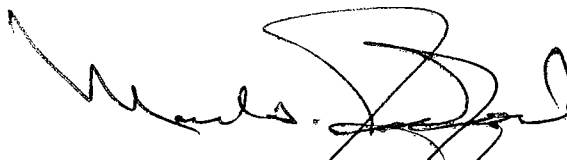
The Commission has authority under PURPA and the implementing regulations of the Federal Energy Regulatory Commission (FERC) to set avoided costs, to order electric utilities to enter into fixed-term obligations for the purchase of energy from qualified facilities (QFs) and to implement FERC rules.

ORDER


In consideration of the foregoing and as more particularly described and qualified above, IT IS HEREBY ORDERED and the Commission does hereby approve the September 24, 2007 Power Purchase Agreement between Idaho Power and Raft River Energy I LLC and termination of the existing Firm Energy Sales Agreement with U.S. Geothermal (Reference Case No. IPC-E-05-01, Order No. 29692).

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 8th day of January 2008.



MACK A. REDFORD, PRESIDENT

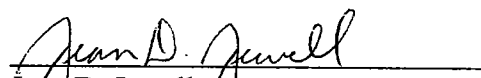


MARSHA H. SMITH, COMMISSIONER



JIM KEMPTON, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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