

DECISION MEMORANDUM

TO: COMMISSIONER SMITH
COMMISSIONER REDFORD
COMMISSIONER KEMPTON
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: SCOTT WOODBURY

DATE: OCTOBER 25, 2007

SUBJECT: CASE NO. IPC-E-07-17 (Idaho Power)
REQUEST FOR PCA TREATMENT OF RAFT RIVER ENERGY I LLC
POWER SUPPLY EXPENSE

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 from Raft River Energy I LLC in the Company's Power Cost Adjustment (PCA) mechanism.

Pursuant to an identified need for geothermal resources first identified in the Company's 2004 Integrated Resource Plan (IRP) Idaho Power on June 2, 2006 issued a Request for Proposal (RFP) 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.

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., for its facility known as Raft River Geothermal Power Plant Unit No. 1, located approximately 15 miles southeast of Malta, 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 Raft River Energy I LLC 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the Company's PCA, Idaho Power proposes that the Company's December 29, 2004 Agreement with Raft River Energy I LLC be rescinded upon satisfaction by Raft River Energy I LLC of all requirements to attain a first energy date as specified within the PPA.

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 Agreement 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, upon approval of this PPA by the Commission, 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, located southeast of Malta, Idaho, 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 to work 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 deliver 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 months. 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 forecast 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.

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 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 electrons bid at a lower cost to customers.

COMMISSION DECISION

Idaho Power requests an accounting order authorizing the inclusion of 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. 29642) at the same site.

Idaho Power requests that its Application be processed pursuant to Modified Procedure, i.e., by written submission rather than by hearing. Reference Commission Rules of Procedure, IDAPA 31.01.01.201-204. Staff concurs in the Company's recommendation of Modified Procedure and recommends an extended period for comment to allow for Staff investigation and discovery. Does the Commission agree with the recommended procedure?

Scott Woodbury

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