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Attorney for the Commission Staff

**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 ) COMMENTS OF THE  
ENERGY FROM RAFT RIVER ENERGY I LLC ) COMMISSION STAFF  
IN THE COMPANY'S POWER COST )  
ADJUSTMENT )  
\_\_\_\_\_ )**

**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 October 31, 2007, submits the following comments.

**BACKGROUND**

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 (Raft River I) in the Company's Power Cost Adjustment (PCA) mechanism. The underlying Power Purchase Agreement (PPA) for 13 MW is an outcome of a June 2, 2006 Request for Proposal (RFP) for 100 MW of geothermal resources.

U.S. Geothermal, Inc., was selected as the successful bidder in the RFP process. U.S. Geothermal is a Boise company with geothermal resources in Cassia County, Idaho and Malheur County, Oregon. In its bid under the RFP, U.S. Geothermal proposed a total of 45.5 MW of geothermal energy to be produced from four facilities—two at Raft River in Idaho and two at Neal Hot Springs in Oregon. Those facilities are scheduled to come online between December 2007 and January 2011. The parties have negotiated and executed a 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.

## **STAFF ANALYSIS**

### **Rescission of Existing PURPA Agreement**

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.

Staff is not opposed to rescinding the existing PURPA Agreement and effectively replacing it with the new PPA. Under the PURPA Agreement, Raft River I is limited to producing no more than 10 aMW per month; however, under the new PPA, Raft River I will produce approximately 13 aMW per month. Because of the modular size of the generation equipment that will be used and the resource characteristics of the site, generation of 13 aMW will permit maximum production from the equipment and will more effectively utilize the geothermal resource. Moreover, as will be discussed in more detail later, the price for energy under the new PPA will be slightly less than the price that would have been paid under the existing PURPA Agreement.

## **Need for Geothermal Power**

Idaho Power first identified a need for geothermal power in its 2004 Integrated Resource Plan (IRP). Specifically, the 2004 IRP called for 100 MW of geothermal energy in 2008. It was on the basis of that plan that Idaho Power issued its Geothermal RFP. However, shortly after issuing the RFP, the 2006 IRP was completed. It showed the need for 50 MW of geothermal energy in 2009, 50 MW in 2021 and 50 MW in 2022. U.S. Geothermal's bid of 43.5 MW in four increments between now and 2011 is consistent with the needs identified in either Idaho Power's 2004 or its 2006 IRP. In the 2006 IRP, geothermal is a significant part of the new 20-year resource portfolio that also includes 250 MW of wind generation, 500 MW of coal-fired generation<sup>1</sup>, 150 MW of combined heat and power at customer facilities, 285 MW of transmission upgrades to enable market purchases, 250 MW of nuclear, and 187 MW of demand response and energy efficiency programs.

Based on responses to the geothermal RFP, Idaho Power believes that additional geothermal resources may be available at reasonable prices. In addition, because geothermal resources are baseload (as compared to intermittent) renewable resources, and because geothermal resources minimize the Company's and customers' exposure to future carbon regulations, Idaho Power has decided to issue another geothermal RFP. This second RFP will seek to acquire 50 to 100 MW of geothermal generation with a target online date of 2011. If geothermal resources are available prior to 2011, they will be considered to meet projected deficits in 2009 and 2010. The RFP is targeted to be released in early 2008.

## **Request For Proposals/Overview of Process**

Prior to the issuance of the RFP, Idaho Power assembled an evaluation team consisting of four Company employees. Three other employees acted as advisors. Two independent consultants were also hired to assist in the process. GeothermEx, Inc. provided expertise in evaluating the quality of the geothermal resources included in each proposal, and also provided some guidance in preparing the RFP and the proposal evaluation manual. Power Engineers Inc. conducted transmission studies for each of the proposed sites and provided cost estimates for transmission interconnection and upgrades.

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<sup>1</sup> Idaho Power recently announced that it will not pursue development of 250 MW of coal-fired generation scheduled for 2012, and will instead seek to develop a 250 MW gas-fired combined cycle project.

The evaluation team began by identifying specific attributes the Company would require to meet the needs specified in the IRP. Those attributes were documented in the RFP. Based on those attributes, an evaluation manual was prepared and a scoring system developed for the purposes of evaluating proposals, prior to issuance of the RFP.

On June 2, 2006, Idaho Power issued the RFP to purchase energy from geothermal-powered generation resources to be delivered to the Idaho Power service territory (2006 Geothermal RFP). The RFP sought approximately 100 MW of nameplate generation, preferably to be delivered by June 2009. Bidders were allowed to propose power purchase agreements with a minimum term of 20 years, or alternatively to offer options under which Idaho Power would own the project.

### **Bids**

**This section of Staff's comments contains confidential information subject to protective agreement.**

### **Initial Bid Evaluation**

**This section of Staff's comments contains confidential information subject to protective agreement.**

**Short List Bid Evaluation**

**This section of Staff's comments contains confidential information subject to protective agreement.**

**Short List Bid Evaluation Results**

**This section of Staff's comments contains confidential information subject to protective agreement.**

### **Facilities and Contracts Under the U.S. Geothermal Bid**

Under the U.S. Geothermal bid accepted by Idaho Power, there would be a total of four geothermal generation facilities delivering power to Idaho Power—two at Raft River and two at Neal Hot Springs—with a combined output of 45.5 aMW. Output from the first Raft River facility is already being provided to Idaho Power as part of its start-up testing under its existing PURPA agreement. With its Application in this case, Idaho Power is seeking approval of a PPA 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. Agreements for the remaining 32.5 MW of power will be

submitted to the Commission separately from this filing. The remaining three facilities would be brought online between June 2009 and January 2011.

### **Raft River I Project Description**

The Raft River I project will have a maximum installed capacity of 15.8 MW. The project's scheduled operation date is February 1, 2008 or 60 days after Commission approval of the PPA, whichever is later. The project is physically connected to the Raft River Rural Electric Cooperative (RRREC) electrical system and will wheel its energy across the RRREC and Bonneville Power Administration (BPA) transmission systems to deliver its energy to Idaho Power at the Minidoka substation. Because this Project is physically located off of the Idaho Power electrical system it was necessary for this Project to acquire firm transmission across RRREC and BPA's system for the term of the PPA.

### **Contract Terms and Conditions**

Raft River Energy I LLC initially guarantees an annual output of 108,186 MWh and a 90 percent capacity factor beginning with the third contract year. This annual guarantee may be adjusted periodically based upon an independent engineer's assessment of the status of the geothermal reservoir. The term of the PPA is 25 years beginning with 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 U.S. Geothermal choose to sell its facility, the PPA provides that U.S. Geothermal first offer to sell its facility to Idaho Power.

The price for energy will start at an annual base rate of \$52.50/MWh, escalating annually at a rate of 2.1 percent through 2020. For the remaining term, the price for energy will escalate annually at a rate of 0.6 percent 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. The rate will also be subject to the same seasonal adjustment factors as are applied to PURPA contracts—generation in the springtime months of March, April and May is priced at 73.5 percent of the contract rate, generation in the summer months of July and August and the winter months of November and December is priced at 120 percent of the contract rate, and generation in all other months is priced at 100 percent of the contract rate. Based on the expected generation of the project over the 25-year contract term, the

PPA has a present value of approximately \$86.3 million. No payment is required by the Company for energy deliveries that exceed the maximum contract amounts.

### **Relationship Between PPA and Existing PURPA Agreement**

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 is the same equipment that is 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 percent 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.

### **Price Assessment**

As previously stated, the purchase price in the Agreement begins at \$52.50/MWh in 2007 and escalates at 2.1 percent through 2020 and at 0.6 percent thereafter. When levelized over the 25-year contract term and including estimated transmission costs, the contract rate is \$63.26 (year 2007 dollars). Under the terms of the Agreement, Idaho Power is not required to pay for anything else other than the energy delivered by the project. Furthermore, Idaho Power is only required to pay for energy it actually receives, i.e., there are no "take or pay" requirements in the contract.

Because the PPA would replace an existing PURPA contract, the most logical comparison is between the rates contained in the existing 10 aMW PURPA Agreement and the 13 aMW PPA. Although the PPA has a 25-year term while the PURPA Agreement has only a 20-year term, a precise comparison of prices is not possible. However, if the same methodology were used to derive a 25-year levelized PURPA rate for a 2008 online date, it would be approximately \$65.95. Therefore, on a levelized cost basis, the rates in the PPA are approximately 4.3 percent below PURPA rates.

While it is reassuring that the purchase prices in the PPA are below PURPA avoided cost rates, Staff believes it is very important to recognize that price alone should not be the only factor considered. The PPA includes other provisions not contained in a PURPA agreement including but not limited to the receipt of renewable energy credits, forecasting and security provisions, and performance assurances. Staff firmly believes that all of the PPA's terms and conditions, including price, must be considered as a package in any comparison to other alternatives.

Another way to judge the reasonableness of the price of a geothermal PPA is to compare it to the price assumptions used in the utility's IRP for similar resources. The IRP process compares the assumed costs of various resources, and then subjects those resource alternatives to rigorous risk analysis including fuel price uncertainty. The cost of geothermal resources assumed in Idaho Power's 2006 IRP is \$56.15 per MWh, about 11 percent lower than the price of the Raft River I PPA. However, while IRP cost assumptions should be expected to be reasonably accurate, they are still only estimates. The fact that the geothermal cost assumptions in the IRP are less than the Raft River I PPA prices is not surprising since very little geothermal development has taken place so far in the region. In any case, Staff is comfortable with Idaho Power purchasing geothermal resources at the prices in the Raft River I PPA.

### **Transmission**

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. U.S. Geothermal will pay the transmission wheeling charges to RREC and to BPA, but will be reimbursed by Idaho Power for the exact costs. Because Idaho Power provides transmission services for BPA in the vicinity, the PPA allows and Idaho Power contemplates in the future working with BPA to reduce the BPA transmission costs for this project.

### **Generation Forecasting/90-110 Performance Band**

The PPA requires that Raft River Energy I LLC deliver detailed hourly, daily and weekly forecasting of net energy deliveries to Idaho Power. If the project fails to provide timely, reliable and useful forecasts, 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. Geothermal resources typically provide an extremely consistent source of energy for power generation. Electrical energy production varies mostly based on ambient air conditions, which is a function of weather. Because generation by the facility is highly predictable, Staff does not believe that the PPA requirement for forecasting will be much of a burden for U.S. Geothermal.

### **Delay Damages**

Under the terms of the PPA, Raft River I will be subject to delay damages if the project does not become operational within 30 days of the scheduled operation date. The scheduled operation date is February 1, 2008 or 60 days after Commission approval of the PPA, whichever is later. This delay damage provision is capped at \$500,000. Delay damages are calculated as the difference in cost, if any, between replacement energy that would have to be purchased from the market and energy that would have been delivered under the PPA.

Staff believes that this damage provision is reasonable as long as the actual damages do not reach the \$500,000 cap. Actual delay damages could theoretically exceed the cap fairly easily if market prices are high. However, Staff believes it is unlikely because construction of the project was completed in October, and the project has been in a testing phase since that time. In addition, market energy prices in the coming few months are not expected to be abnormally high.

### **Delivery Obligation Shortfall Damages**

Raft River Energy I LLC initially guarantees an annual output of 108,186 MWh and a 90 percent capacity factor; however, the guarantee does not begin until the third contract year. Prior to the third contract year, there is no output guarantee. This annual guarantee may be adjusted periodically based upon an independent engineer's assessment of the status of the geothermal reservoir.

The PPA includes damage provisions if the project fails to deliver its guaranteed annual output. If production falls short, Raft River can first try to make up the shortfall in a subsequent 12-month period. However, if the project is still unable to make up its delivery obligations to the Company, the project will pay Idaho Power an amount equal to the difference between the contract rate and the average market energy price for the year, subject to a cap of \$300,000/year for the delivery obligation shortfall. The cap of the project's liability for energy delivery

shortfalls will be escalated at three percent per year up to a maximum of \$500,000 in the 21<sup>st</sup> contract year. In addition, for purposes of computing the shortfall price, the market energy price is capped at 150 percent of the contract rates. This cap further limits Raft River's liability.

Staff believes that the delivery obligation shortfall contract provisions provide some protection to Idaho Power, but do not provide complete protection. If production shortfalls were to occur during a year when market energy prices were high, Idaho Power could be unable to fully recover costs incurred by having to purchase replacement power from the market. Market energy prices have been high enough in the past for such a scenario to occur, and Staff believes the likelihood of such high prices is even greater in the future.

### **Performance Assurances**

As discussed above, the PPA contains provisions designed to protect Idaho Power in the event Raft River I is unable to perform in accordance with requirements of the PPA. The PPA further requires the project to post a \$750,000 security deposit by the end of the third contract year and 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 and must be replenished if any withdrawals occur during the term of the PPA.

Because the security deposit is not required until the end of the third contract year, it provides no security for delay damages. It does, however, provide adequate security for shortfall damages since the amount of required security exceeds the cap for net energy shortfall damages by \$250,000. Security must be provided in the form of a guaranty, escrow account, letter of credit or a cash deposit.

Raft River I's total liability for any and all damages during the term of the PPA is limited to a maximum of \$500,000 for delay damages and \$500,000 for net energy shortfall damages in any contract year. Under the terms of the PPA, Idaho Power is also granted a security interest and lien on all cash collateral held by Raft River, but is not granted a lien on the physical assets of the project. Damages due to willful breach of the PPA by Raft River I are not limited by the PPA, and would likely be determined through whatever legal remedies available to Idaho Power.

The amounts of the performance assurances were negotiated between the parties. There is no precise way of measuring whether the amounts and caps are sufficient because there is no way to know in advance the degree to which Idaho Power would be damaged if Raft River I fails to perform as required by the PPA. The amount of actual damages Idaho Power might incur

would depend in most cases on the cost and time to acquire replacement power or a different resource. The present value of the PPA over its lifetime is approximately \$86.3 million, which far exceeds the damage limits in the PPA. Nevertheless, Staff believes that the damage amounts are high enough to provide strong incentive for Raft River I to perform as required by the PPA.

### **Renewable Energy Credits**

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 percent of the RECs associated with 13 MW of geothermal generation. RECs associated with the first 10 MW of project capacity during the first 10 years were sold to an out-of-state entity prior to negotiation of this PPA, thus they were not available to Idaho Power. The decision for Idaho Power to retain 51 percent of the RECs in the last 15 years of the PPA was based solely on negotiation between the parties.

In its 2006 IRP, the Idaho Power stated that it recognizes that the acquisition and retention of RECs is necessary to accurately fulfill the renewable energy component of Idaho Power's resource portfolio. The Company believes that RECs are necessary in order to assure customers that it has acquired the energy from renewable resources. By retaining the RECs from the Raft River I project, Idaho Power would be better positioned to meet any future federal or state renewable energy requirements. Currently, however, there is no requirement in Idaho for utilities to possess RECs.

Staff maintains that once a renewable energy project is built and operating, the environmental benefits created by the facility are realized by customers and nearby residents whether RECs are sold or not. The sale of RECs from an operating project creates no more environmental benefit than would otherwise exist if no tags were sold. Staff sees the proper role of RECs as increasing the revenue generation potential of a project to such an extent that it causes the project to be built when it otherwise would not be built. Until there is a requirement for utilities in Idaho to possess RECs, Staff believes that utilities should not pay a premium to acquire them. If the utilities do acquire them now however, Staff believes the utilities should sell them in the short term and flow the sales revenues back to customers. By selling the RECs, customers enjoy both the environmental benefits of the project and the REC sales proceeds.

Because Idaho does not yet have a requirement for RECs, Staff is not too concerned that Idaho Power will only be receiving a minimal amount of RECs for the first 10 years of the PPA. However, recognizing that Idaho Power might be required to possess RECs at some time in the future, Staff believes it is appropriate in this case for Idaho Power to acquire now the majority of RECs for the last 15 years of the PPA. In its analysis of bids under the RFP, Idaho Power assigned a value to the RECs included in U.S. Geothermal's bid. Staff expects Idaho Power to eventually realize at least that value in the future, either through the sale of the RECs if they are not needed or by retaining them if they are required by law. Unfortunately, because the future value of RECs is unknown, it is impossible to judge whether Idaho Power should acquire them now in advance of need. Nonetheless, U.S. Geothermal's bid would have been judged best in the RFP even if Idaho Power had assigned no value to RECs in its analysis. For this reason, Staff believes that the PPA's terms regarding REC ownership are reasonable. Staff believes it is important to evaluate the costs and benefits of all speculative transactions to determine if they are reasonable. Purchase of RECs in advance of need is clearly one of these transactions. Staff will continue to assess the merits of such REC purchases whenever they occur.

### **Ratemaking Treatment**

Idaho Power requests full cost recovery of expenses under the PPA through its Power Cost Adjustment (PCA) mechanism. Idaho Power notes that under the Company's current PCA mechanism, the Company recovers only 90 percent of changes from base level net power supply costs through the PCA for non-PURPA projects with the remaining 10 percent acting as an incentive for efficiency. The Commission found at the time the sharing percentage was established 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 I and Idaho Power at the same facility. Under the new PPA, Idaho Power will continue to purchase the same electrons but at a lower cost to customers.

The Company's request that 100 percent of the purchased power cost of this agreement be passed through the PCA would be unusual treatment. At the present time only PURPA Qualifying Facility costs are passed through the PCA at 100 percent. The proposed contract is not a PURPA contract.

A brief review of the PCA is necessary to understand the reasons for different levels of sharing. All of the normal costs of power supply are included in base rates in a rate case and recovered from all customers. The PCA is designed to capture power supply cost variations from normal that occur between rate cases and to adjust rates for those variations. It does this by calculating the difference between normal costs approved in a rate case and the actual power supply costs incurred by the Company. Power supply costs are generator fuel costs and non-firm purchased power costs netted against secondary sales revenues. Variations from normal in these accounts are driven by actual water conditions and actual market prices and other power supply changes. In this case the change is the addition of a new generating resource, the Raft River geothermal project. As a new project begins operation the PCA immediately begins to capture reduced fuel costs, reduced non-firm purchased power costs and/or increased secondary sales revenue. Any combination of these reduce actual PCA costs and produce a PCA benefit that, as a result of PCA sharing, flow through the PCA and go 90 percent to customers and 10 percent to Company shareholders. If the Company makes no filing to recover the cost of the purchased power agreement (PPA), the situation that exists between rate cases is that customers receive 90 percent of the benefit, shareholders receive 10 percent of the benefit and shareholders pay 100 percent of the PPA cost. This is not a fair situation so the Company files to include the cost of the PPA in the PCA. This is that filing.

There are two levels of cost recovery between rate cases currently included in the PCA, 100 percent recovery or 90 percent recovery. The Company has filed for 100 percent recovery of PPA costs. Staff believes it is normally inappropriate to allow 100 percent recovery for non-PURPA projects because it is unfair to customers. As previously discussed, if resource benefits are not included in base rates, customers receive 90 percent of the power supply benefits of the resource addition through the PCA and the Company's shareholders receive the other 10 percent. Conversely, once the contract is approved costs of the resource also flow through the PCA with the same 90/10 sharing to assure that the Company and customers are both treated fairly.

However, the Company already has an approved PURPA contract for 10 MW of this resource. The normal annual cost of which it proposes to include in base rates in the Company's current general rate case, Case No. IPC-E-07-08. Therefore, because the cost to purchase 10 Mws of this resource will likely be included in base rates at 100%, the only remaining costs at issue in this case are those that exceed the 10 Mw purchase amount. Consequently, Staff recommends that monthly PPA costs incurred by the Company under this contract, that exceed the PURPA amount approved in the Company's current general rate case be included in the PCA as non-PURPA costs shared 90/10 with customers. This allows the Company to recover 100 percent of the costs associated with 10 Mws of PPA output due to the existing PURPA contract included in base rates and requires balanced cost and benefit sharing between the Company and its customers of all additional costs and benefits incurred under the PPA. This treatment will continue until all costs and benefits of the PPA are included in base rates in a future case. Staff does not anticipate or recommend this treatment for other non-PURPA contracts. The Horizon wind project, a non-PURPA PPA, is currently approved for 90 percent PCA cost recovery until normalized generation costs are incorporated in base rates.

The new contract also includes a provision for back payment of all generation under the old PURPA contract that exceeds the 10 MW payment cap. Staff expects these costs to be relatively small. Staff recommends that these costs be passed through the PCA at the 100 percent recovery level. 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.

### **Staff's Overall Assessment of the Agreement**

Many of the principal provisions of the PPA are similar to provisions contained in Raft River's existing PURPA contract. The price in the PPA, for example, is only slightly below PURPA avoided cost rates.

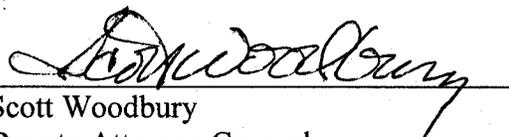
There are several key differences, however, between the PPA and the existing PURPA contract. First, although the PURPA contract contains some performance requirements, they are not nearly as stringent as those contained in this PPA. The PPA contains online delay damages, guaranteed annual output requirements, and delivery obligation shortfall penalties. Second, the PPA has a \$750,000 performance guarantee. Finally, at least some RECs are provided to Idaho Power under the PPA, whereas under the PURPA Agreement Idaho Power allowed Raft River to retain all of them.

Staff believes that judgment as to the reasonableness of the PPA must be based on the PPA in its entirety. While Staff wishes that the penalties and performance security provisions in the PPA would have been stronger, we recognize that all provisions are negotiated as part of a package. More stringent penalties and higher security requirements would have provided Idaho Power and its customers more protection in the event of performance failures or default, but more protection would have come at a higher cost. On the whole, Staff believes that the PPA is more attractive for both Idaho Power and U.S. Geothermal than the existing PURPA Agreement. If approved, Staff believes that the Raft River I PPA and the other PPAs yet to come will become valuable piece of the Company's resource portfolio.

### STAFF RECOMMENDATION

Staff believes that the geothermal RFP conducted by Idaho Power was fair and that the selection of the bid by U.S. Geothermal of four projects—two at Raft River and two at Neal Hot Springs—was reasonable. Staff recognizes that the Raft River I PPA is the first contract to emerge from the RFP process, and we anticipate three additional contracts with rates and terms consistent with those bid by U.S. Geothermal. Staff recommends that the Commission issue an order finding that the Power Purchase Agreement with Raft River Energy I LLC is prudent and approving inclusion of the prudently incurred power purchase expenses associated with the Raft River I PPA in the Company's Power Cost Adjustment (PCA) mechanism as described previously in these comments.

Respectfully submitted this 21<sup>st</sup> day of December 2007.

  
Scott Woodbury  
Deputy Attorney General

Technical Staff: Rick Sterling  
Keith Hessing

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## CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 21<sup>ST</sup> DAY OF DECEMBER 2007, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF**, IN CASE NO. IPC-E-07-17, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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SECRETARY

CERTIFICATE OF SERVICE