

# McDowell & Rackner PC



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## VIA ELECTRONIC FILING

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Public Utility Commission of Oregon  
PO Box 2148  
Salem, OR 97308-2148

**Re: Docket LC 41**

Enclosed for filing is Idaho Power Company's Reply Comments. A copy of this filing has been served on all parties to this proceeding.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lisa F. Rackner". The signature is fluid and cursive, with a long horizontal stroke extending to the right.

Lisa F. Rackner

Enclosures

cc: Service List

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BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON

LC 41

In the Matter of  
IDAHO POWER COMPANY  
Application for Adoption of its 2006  
Integrated Resource Plan

IDAHO POWER COMPANY'S  
REPLY COMMENTS

In comments filed on March 16, 2007 regarding Idaho Power Company's ("Idaho Power") 2006 Integrated Resource Plan ("IRP"), staff of the Public Utility Commission of Oregon ("Staff") expressed concern regarding a 250-MW coal-fired resource identified to come on-line in 2013. The near-term action plan in the 2006 IRP describes Idaho Power's need to make a commitment to a coal-fired resource in 2007 in order for it to be on-line in 2013. In subsequent telephone conversations, Staff asked Idaho Power to evaluate potential alternatives that would allow construction of a coal-fired resource to be delayed.

**I. BACKGROUND**

As summarized in Staff's comments, Idaho Power's 2006 IRP contains a balanced and diverse set of resources designed to meet Idaho Power's customer load obligations over the next twenty years. Proposed resource additions include combined heat and power projects, coal-fired resources (both conventional and IGCC), wind, geothermal, nuclear (power purchase agreement), and transmission projects which will allow Idaho Power to import additional energy from outside its Control Area. In addition, the 2006 IRP includes a package of DSM programs designed to reduce average annual energy consumption by 88 aMW and peak-hour loads by 187 MW by 2026.

Idaho Power's 2006 IRP load forecast expects summertime peak-hour loads will continue to grow 80 MW annually. The summer of 2006 saw Idaho Power's previous peak-hour record broken twelve days in June and July with a new all-time peak of 3,084 MW

1 established on July 24, 2006. So far in the summer of 2007 this record has been surpassed  
2 on five separate days with the highest peak-hour load reaching 3,193 MW on July 13th.

3 During recent peak-hour loads, Idaho Power's transmission system has been  
4 stressed. In order to serve its native load or designated network load during July, Idaho  
5 Power has imported power from the Pacific Northwest to very near the current practical limit.  
6 On July 13th during the peak-load hour, excluding Idaho Power's share of Boardman,  
7 482 MW was being imported from the Pacific Northwest and an additional 312 MW was  
8 being imported from the east side of Idaho Power's system. Idaho Power's practical import  
9 limit from the Pacific Northwest is approximately 550 MW. However, at times transmission  
10 cuts have reduced Idaho Power's import capability from the Pacific Northwest to 200 MW.  
11 During this peak-load hour on July 13th, Idaho Power's gas-fired combustion turbines were  
12 running at full output, the hydro facilities were producing nearly 1,100 MW and the coal-fired  
13 plants were producing nearly 1,000 MW. With peak-hour loads forecast to grow at  
14 approximately 80 MW per year, additional resources are necessary to meet the service  
15 territory's growing loads.

16 Idaho Power's 2004 IRP included the construction of a 500-MW conventional coal-  
17 fired resource. Due to concerns and uncertainty surrounding a potential carbon tax, the  
18 2006 IRP effectively delayed one half of this resource by reducing its size to 250 MW and  
19 including a 250-MW IGCC resource in 2017. In addition, Idaho Power's continuing  
20 evaluation of a conventional coal resource indicates it would not be possible to have a new  
21 resource on-line in 2013 as indicated in the 2006 IRP. Given the current commitment  
22 schedule, the new resource would most likely come on-line in 2014.

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1 **II. ALTERNATIVES**

2 In the time following the submission of the 2006 IRP, Idaho Power has continued to  
3 evaluate resource alternatives and options in light of the uncertainty surrounding the use of  
4 conventional coal technologies and the risks associated with clean coal technologies. The  
5 following is a summary of additional alternatives Idaho Power is continuing to investigate:

6 **A. Transmission**

7 Idaho Power's 2006 IRP identifies two transmission projects which include the  
8 construction of a 225-MW line from McNary Dam to Boise due to be completed in 2012 and  
9 a 60-MW line from Lolo to Boise to be completed in 2019. Transmission studies are already  
10 in progress for the McNary to Boise project. Because of the long lead times necessary to  
11 design, permit and construct large transmission projects, it does not appear to be feasible to  
12 move up the timeline for this project; however it may be possible to increase the capacity of  
13 this project which is something Idaho Power is currently investigating.

14 Idaho Power has also recently learned that as a result of a pending upgrade, there  
15 may be up to 200 MW of additional transmission capacity available from Mid-C to one of  
16 Idaho Power's interconnections. Idaho Power will continue to investigate this option and the  
17 upgrades necessary to deliver and complete the upgrade to Idaho Power's main load  
18 center. In addition, Idaho Power is an active participant in the NTTG regional transmission  
19 planning group and is working cooperatively with other utilities in the region to evaluate  
20 various transmission alternatives.

21 **B. Geothermal**

22 In June of 2006 Idaho Power released a Request for Proposals (RFP) for 50 MW of  
23 geothermal energy. In March of 2007, US Geothermal was announced as the successful  
24 bidder in the RFP process and Idaho Power is currently negotiating a power purchase  
25 agreement for the output from two geothermal sites, one in southern Idaho and the other in  
26 eastern Oregon. The cost per MWh of geothermal energy was substantially higher than

1 anticipated in the 2006 IRP. Several of the bids exceeded the IRP estimated cost of \$56.15  
2 per MWh by 40-60%. Idaho Power believes these higher costs are due to the risk involved  
3 in locating and proving a geothermal resource.

4 In light of the risk involved, Idaho Power has continued to research potential  
5 geothermal sites by hiring a consultant to evaluate and recommend geothermal projects that  
6 Idaho Power may be able to participate in the development risk. By doing so, Idaho Power  
7 expects it may be able to reduce the overall cost of the energy coming from a geothermal  
8 project.

9 **C. Leasing or Purchasing Additional Water Rights**

10 Idaho Power is investigating its ability to purchase or lease additional water rights in  
11 the upper Snake River basin. By doing so, Idaho Power would be able to generate  
12 additional electricity from thirteen of its hydroelectric projects on the Snake River without  
13 incurring any additional capital cost.

14 Because of water rights issues in the State of Idaho and the 1984 Swan Falls  
15 Agreement, Idaho Power is looking to lease water in the near future in order to see if this  
16 option can be challenged legally and if Idaho Power can be guaranteed the water will stay in  
17 the river and not be taken out for other consumptive uses. If successful, this alternative will  
18 be economical since Idaho Power will not incur any additional capital costs associated with  
19 this generation. Unfortunately, the availability of leased water will vary year to year, so this  
20 alternative does not mitigate the need for developing additional firm resources.

21 **D. Energy Exchange with Seattle City Light**

22 Seattle City Light owns the output of the 101-MW Lucky Peak Hydroelectric Project  
23 east of Boise. Idaho Power has had discussions with Seattle City Light to determine if an  
24 agreement can be reached where Idaho Power can take the energy from this project during  
25 the Company's summertime peak and in turn provide additional energy to Seattle City Light  
26 during the winter when Seattle experiences peak-hour demand for energy.

1 **E. Combined-Cycle Combustion Turbine**

2 Although the preferred portfolio identified in the 2006 IRP does not contain any  
3 natural gas-fired combustion turbines, the costs associated with developing generation  
4 resources are not a constant. As fuel and resource development costs change, a  
5 combined-cycle combustion turbine may be preferred to a coal-fired resource. Given the  
6 recent changes in fuel and capital costs, and the uncertainty regarding CO<sub>2</sub> regulations,  
7 Idaho Power has recently revisited its combined-cycle combustion turbine and coal-fired  
8 resource cost estimates in order to update the “tipping point” chart which compares the  
9 estimated levelized cost of energy from a combined-cycle, natural gas-fired resource to the  
10 various conventional and clean-coal technologies. The updated “tipping point” chart is  
11 included to illustrate the influence that changes in resource costs have on decision points.  
12 This chart is similar to the one presented in Figure 6-1 of the 2006 IRP. The new chart  
13 includes updated costs for several generation resources including: IGCC with and without  
14 CO<sub>2</sub> sequestration, CCCT, and a range of costs for supercritical pulverized coal (SCPC). In  
15 general, several trends are apparent—as the cost of coal-fired resources increase relative to  
16 CCCTs, the CO<sub>2</sub> adder necessary to make CCCT the preferred choice is reduced; and as  
17 natural gas prices decrease, CCCTs become the preferred choice. Specific observations  
18 are as follows; first, under a low natural gas price scenario with SCPC costs at \$2,500/kW, a  
19 CCCT is the preferred choice for any level of CO<sub>2</sub> adder. Second, under an expected case  
20 natural gas price scenario with SCPC costs at \$2,500/kW, a CCCT is preferred to SCPC for  
21 any carbon adder greater than approximately \$30/ton (down from approximately \$42/ton  
22 shown in Figure 6-1 of the 2006 IRP). Third, under an expected case natural gas price  
23 scenario a CCCT is preferred to IGCC with CO<sub>2</sub> sequestration up to a carbon adder of  
24 approximately \$46/ton (up from approximately \$8/ton shown in Figure 6-1 of the 2006 IRP).  
25 As project locations become known and specific transmission, fuel and capital costs are  
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1 developed, Idaho Power will continue to consider them in its analysis of resource  
2 alternatives.

3 **F. Coal-Based Resources**

4 As previously stated, Idaho Power's 2006 IRP identified the need for a coal-fired  
5 resource beginning in 2013. As a result of discussions with potential resource participants,  
6 in 2005 Idaho Power and Spokane, Washington-based Avista Utilities entered into an  
7 agreement to jointly investigate possible development or acquisition of coal-based  
8 resources, or entering into power purchase agreements for output from coal-based projects.  
9 Under the arrangement, the utilities studied the options for base load coal-based generation  
10 to meet their collective IRP forecast needs. Information submittals from interested parties  
11 were received in October 2006. In early April 2007, Avista and Idaho Power sent a joint  
12 letter to developers providing an update on the coal-based resource assessment process  
13 which indicated the combined Avista-Idaho Power joint assessment would be suspended  
14 and that each company would proceed independently toward resource acquisition. Also in  
15 April of 2007, in a separate letter Idaho Power notified developers on its short-list of projects  
16 selected for further screening and evaluation. Idaho Power is still engaged in this evaluation  
17 process and is also evaluating expansion opportunities at its existing jointly-owned facilities.

18 **III. OREGON RENEWABLE PORTFOLIO STANDARD COMPLIANCE**

19 Staff has requested that these reply comments include a discussion of Idaho Power's  
20 ability to comply with Oregon's recently enacted Renewable Portfolio Standards law. With  
21 the addition of the 101-MW Elkhorn wind project in late 2007, and the 26-MW Neal Hot  
22 Springs geothermal project in 2011 (both projects are located in Oregon), Idaho Power will  
23 have added a considerable amount of new renewable generation in Oregon. The 2006 IRP  
24 forecasts Idaho Power's total Company load will reach 2,464 aMW in 2025. If we assume  
25 that 5% of total Company load is in Oregon, the result is approximately 123 aMW of load in  
26 Oregon. Assuming capacity factors of 30% for the Elkhorn project and 90% for the Neal Hot

1 Springs project, Idaho Power will have almost 54 MW of new renewable generation located  
2 in Oregon. Idaho Power will own the Renewable Energy Credits (RECs) from the Elkhorn  
3 project and has the option to purchase the RECs from the Neal Hot Springs project.

4 Although currently classified as one of the Smaller Utilities for the purpose of  
5 determining Oregon RPS obligations, Idaho Power understands that it would be treated as a  
6 large utility if it commits to participation in the construction of a new coal-fired plant. The  
7 State of Idaho does not have a Renewable Portfolio Standard and there does not appear to  
8 be a strong impetus to establish a RPS in Idaho. If that situation remains unchanged, we  
9 can assume the REC's from the Elkhorn and Neal Hot Springs projects will be available to  
10 satisfy Idaho Power's Oregon RPS requirements either by purchase or by virtue of  
11 ownership. Under that scenario Idaho Power will have sufficient RECs to exceed the Large  
12 Utilities 2025 target of 25%, in 2011. Not including the above mentioned Oregon-based new  
13 renewable resources, Idaho Power currently has in excess of 250 MW of additional wind  
14 generation under contract.

#### 15 IV. CONCLUSION

16 Because its 2006 IRP, including a future coal-fired power plant, has been  
17 acknowledged by the Idaho PUC, Idaho Power feels it is necessary to continue its  
18 evaluation of coal-based resources. Considering the dynamic nature of resource  
19 development costs, the volatility in fuel prices and the growing load in its service area, Idaho  
20 Power believes that it would not be prudent to rule out any resource alternatives at this time.  
21 To ensure certain resources remain viable alternatives for meeting a specific forecast need,  
22 e.g., 2013, Idaho Power believes that it is prudent to incur certain development costs  
23 necessary to preserve resource alternatives. Idaho Power views its Integrated Resource  
24 Plans as plans—plans that can change in response to changes in the assumptions under  
25 which the Plan was created.

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1 In Idaho, an electric utility is prohibited from beginning the construction of a  
2 generating plant "*without first obtaining from the Commission a certificate that the present or*  
3 *future public convenience and necessity require or will require such construction*" (Idaho  
4 Code § 61-526). The Certificate of Public Convenience and Necessity (CPCN) process  
5 typically follows the following order of events: 1) the utility files an Application for a  
6 Certificate of Public Convenience and Necessity with the Commission, 2) the Commission  
7 issues a Notice of Application and Notice of Intervention Deadline, 3) the Commission  
8 grants or denies intervention status to petitioning parties, 4) an evidentiary hearing is held  
9 where testimony is presented by all intervening parties, 5) the Commission conducts a  
10 review of the Application, testimony and record, and 6) an Order is issued granting or  
11 denying the Application for a certificate. If the Commission approves the Application, a  
12 Certificate of Public Convenience and Necessity is issued to the utility. A CPCN does not  
13 approve cost recovery in rates and a prudency review of the cost of the resource is  
14 undertaken in a rate case.

15 Regarding any future coal-based resource alternative, Idaho Power will not reach a  
16 final decision until sometime before it would be necessary to file for a Certificate of Public  
17 Convenience and Necessity from the Idaho PUC.

18 In light of the ongoing evaluation of a coal-based resource as well as all the  
19 previously discussed alternatives, Idaho Power requests the OPUC acknowledge Idaho  
20 Power's 2006 IRP with an understanding that Idaho Power does not consider  
21 acknowledgement of the Plan as acceptance or approval for the construction of a coal-  
22 based resource. Idaho Power plans to provide an update on the 2006 IRP to the OPUC no

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1 later than June of 2008, at which time Idaho Power expects to have completed the  
2 evaluation of all the previously mentioned alternatives.

3 DATED: August 7, 2007.

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**CERTIFICATE OF SERVICE**

I hereby certify that I served a true and correct copy of the foregoing document in Docket LC 41 on the following named persons on the date indicated below by email addressed to said persons at his or her last-known address indicated below.

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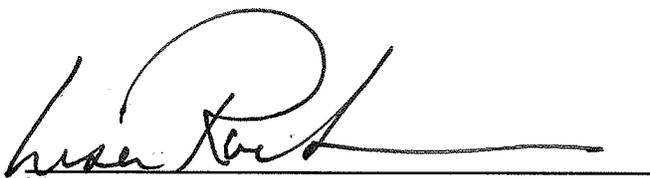
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