

# McDowell & Rackner PC



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May 14, 2007

## VIA ELECTRONIC FILING

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

**Re: Docket UM 1129**

Enclosed for filing in the above-referenced proceeding is Idaho Power Company's Response to Sherman County and J.R. Simplot Company's Motion to Institute a Supplementary Proceeding to Review Avoided Cost Rates. 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 large initial "L" and "R".

Lisa F. Rackner

Enclosures

cc: UM 1129 Service List

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BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON

UM 1129

In the Matter of PUBLIC UTILITY  
COMMISSION OF OREGON Staff  
Investigation Relating to Electric Utility  
Purchases From Qualifying Facilities.

**IDAHO POWER COMPANY'S RESPONSE  
TO SHERMAN COUNTY AND J.R.  
SIMPLOT COMPANY'S MOTION TO  
INSTITUTE A SUPPLEMENTARY  
PROCEEDING TO REVIEW AVOIDED  
COST RATES**

**INTRODUCTION**

On April 27, 2007 the Sherman County Court and the J.R. Simplot Company ("Sherman/Simplot") filed a motion requesting that the Commission immediately initiate a supplementary proceeding to review the effect of changes in natural gas prices on the avoided cost rates of Idaho Power Company ("Idaho Power" or the "Company"), PacifiCorp d/b/a Pacific Power and Portland General Electric Company (the "Motion").

Granting Sherman/Simplot's Motion would result in duplication of effort, inefficient utilization of utility and Commission resources and inaccurate avoided cost rates. Therefore Idaho Power respectfully requests that the Motion be denied.

**1. Idaho Power Will File Updated Avoided Costs this Summer**

In accordance with the provisions of OAR 860-029-0080(3),<sup>1</sup> Idaho Power will file updated avoided cost information within thirty (30) days of the Commission's acknowledgement of Idaho Power's Integrated Resource Plan ("IRP").

<sup>1</sup> For the Commission's convenience, a copy of the full text of OAR 860-029-0080 is attached to this response.

1 Idaho Power filed its IRP with the Commission on October 20, 2006 in Docket LC 41.  
2 Idaho Power presented its IRP to the Commission at a public meeting on  
3 February 27, 2007. As a result, LC 41 is fully submitted and is awaiting a Commission  
4 order. Assuming that the Commission acknowledges the Company's IRP within a typical  
5 timeframe, Idaho Power will file updated avoided cost information this summer.

6 Given this timeframe, initiating a separate proceeding to review one component of  
7 avoided cost rates will result in duplication of effort and inefficient use of utility and  
8 Commission resources.

9 **2. Any Avoided Cost Proceeding Should not be Limited to Natural Gas**  
10 **Prices.**

11 Sherman County and J.R. Simplot ask the Commission to initiate a supplemental  
12 proceeding to investigate only one component of avoided costs—the effect of changes in  
13 natural gas prices on utility avoided costs. (Motion at 3.) Presumably Sherman/Simplot  
14 seeks to limit the Commission's review to this single issue on the assumption that it will  
15 increase avoided cost rates. Such a one-sided approach is, to say the least, unfair. Any  
16 proceeding to review avoided cost rates should include other potential adjustments to  
17 avoided cost rates, not just natural gas price changes.

18 For example, Idaho Power has recently completed a study of the additional costs it  
19 will incur to integrate intermittent wind resources on its system. Idaho Power prepared this  
20 integration study in response to an order from the Idaho Public Utilities Commission (the  
21 "Idaho Commission"). In Order No. 29839 the Idaho Commission found that wind  
22 generation presents unique operational integration costs to a utility. (Order No. 29839 at 8.)  
23 The Idaho Commission also found that the unique supply characteristics of wind generation  
24 and the related integration costs provide a basis for adjustment of avoided cost rates, a  
25 calculated figure that may be different for each utility. (Order No. 29839 at 8.)

26

1 The results of the recently completed integration study indicate that Idaho Power  
2 sustains increased costs because it must use its hydro system as the backup for the  
3 integration of wind generation. To offset a portion of these additional costs, the Company  
4 has proposed to reduce avoided cost payments to wind developers by \$10.72 per MWh.

5 The additional system costs required to integrate wind resources are not currently  
6 reflected in avoided cost rates in either Oregon or Idaho. Idaho Power's integration study  
7 has been presented to the Idaho Commission and is currently being reviewed and  
8 discussed in a workshop process in Idaho Case No. IPC-E-07-3. While the Idaho  
9 Commission has not issued a final order setting a wind integration cost, Idaho Power  
10 anticipates that Case No. IPC-E-07-3 will result in a reduction in avoided cost rates paid to  
11 wind-powered PURPA qualifying facilities ("QFs").

12 Thus it should be abundantly clear that natural gas price is only one of many  
13 components that can significantly influence avoided cost rates. Oregon customers will be  
14 disadvantaged if the Commission fails to consider all such components at the same time. A  
15 comprehensive consideration of avoided cost components is particularly critical because the  
16 Commission has mandated 20-year purchase contracts for QFs that contain rates that are  
17 fixed for 15 years. As a result, QF contracts containing avoided costs that are too high  
18 cannot be changed for 15 years.

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**CONCLUSION**

Sherman/Simplot's proposal to initiate a proceeding to address one single component of avoided costs, when other components may also be appropriate and ripe for consideration, is unfair and would result in an inefficient use of resources. Idaho Power recommends that the Commission dismiss Sherman/Simplot's Motion without prejudice. After each utility has submitted its updated avoided costs this summer, the Commission could then consider whether it is necessary to initiate a proceeding to review avoided cost rates.

DATED: May 14, 2007.

McDOWELL & RACKNER PC



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**BEFORE THE UTILITY COMMISSION OF OREGON**

**UM 1129**

**IDAHO POWER COMPANY**

**ATTACHMENT 1**

860-029-0080

### Electric Utility System Cost Data

(1) Each public utility shall provide sufficient data concerning its avoided costs and costs of interconnection to allow the owner or operator of a qualifying facility to estimate, with reasonable accuracy, the payment it could receive from the utility if the qualifying facility went into operation under any of the purchase agreements provided for in these rules.

(2) By January 1 of each odd-numbered year, each nonregulated utility shall prepare and file with the Commission a schedule of avoided costs equaling the nonregulated utility's forecasted incremental cost of resources over at least the next 20 years.

(3) Each public utility shall file with the Commission draft avoided-cost information with its least-cost plan pursuant to Order No. 89-507 and file final avoided-cost information within 30 days of Commission acknowledgment of the least-cost plan to be effective 30 days after filing. The information submitted shall be maintained for public inspection and include the following data for calculating avoided costs:

(a) The estimated avoided costs on its system, solely with respect to the energy component, for expected levels of purchases from qualifying facilities. The levels of purchases shall be stated in blocks of not more than 100 megawatts for systems with peak demand of 1,000 megawatts or more and in blocks equivalent to not more than 10 percent of the system peak demand for systems of less than 1,000 megawatts. The avoided costs shall be stated on a cents-per-kWh basis, during peak and off-peak periods, by year, for the current calendar year and each of the next five years; and

(b) The public utility's estimated capacity costs at completion of the planned capacity additions and planned capacity firm purchases, on the basis of dollars per kW, and the associated energy costs of each addition or purchase, expressed in cents per kWh. These costs shall be expressed in terms of individual generating resources and of individual, planned firm purchases.

(4) Each public utility contracting to purchase nonfirm energy from a qualifying facility under OAR 860-029-0040(3)(a) shall file with the Commission each quarter its nonfirm energy avoided cost.

(5) Nothing in these rules shall preclude the determination of avoided costs:

(a) As the average avoided costs over an appropriate period of time; or

(b) To reflect variations in avoided costs due to changes in stream flows, generating unit availability, loads, seasons, or other conditions.

(6) State review: Any data submitted by a public utility under this rule shall be subject to review and approval by the Commission. In any such review, the public utility has the

burden of supporting and justifying its data. Any standard rates filed under OAR 860-029-0040 shall be subject to suspension and modification by the Commission.

(7) A public utility may propose or the Commission may require a public utility to file the data described in OAR 860-029-0080(3) during the two-year period between filing least-cost plans pursuant to Order No. 89-507 to reflect significant changes in circumstances, such as the acquisition of a major block of resources or the completion of a competitive bid. Such a revision will become effective 90 days after filing.

(8) At least every two years, the public utility must file with the Commission the data described in OAR 860-029-0040(4) and 860-029-0080(3).

Stat. Auth.: ORS 183, ORS 756, ORS 757 & ORS 758

Stats. Implemented: ORS 756.040 & ORS 758.505 - ORS 758.555

Hist.: PUC 9-1981, f. & ef. 10-29-81 (Order No. 81-755); PUC 7-1982, f. & ef. 7-21-82 (Order No. 82-514); PUC 21-1984, f. & ef. 9-25-84 (Order No. 84-742); PUC 2-1993, f. & cert. ef. 1-8-93 (Order No. 92-1793 & 93-035); PUC 1-1998, f. & cert. ef. 1-12-98



1 **CERTIFICATE OF SERVICE**

2 I hereby certify that I served a true and correct copy of the foregoing document in  
3 Docket UM 1129 on the following named person(s) on the date indicated below by email  
4 and first-class mail addressed to said person(s) at his or her last-known address(es)  
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