

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

<b>CASSIA GULCH WIND PARK, LLC AND</b>	)	
<b>CASSIA WIND FARM, LLC,</b>	)	<b>CASE NO. IPC-E-06-21</b>
	)	
<b>COMPLAINANTS,</b>	)	
	)	
<b>v.</b>	)	
	)	
<b>IDAHO POWER COMPANY,</b>	)	<b>ORDER NO. 30414</b>
	)	
<b>RESPONDENT.</b>	)	

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On September 13, 2006, Cassia Gulch Wind Park, LLC and Cassia Wind Farm, LLC (collectively Cassia or the Projects) filed a complaint against Idaho Power Company (Idaho Power; Company) with the Idaho Public Utilities Commission (Commission) requesting a Commission declaration and determination that, as a matter of law and policy, the cost responsibility for transmission system upgrades to meet N-1 contingency planning conditions should not be assigned to PURPA qualifying facilities (QFs) connecting to the system, but rather, should be rolled into the utility's plant-in-service rate base and recovered from rates and charges for utility service of native load and other transmission customers.

On June 13, 2007, Idaho Power and Cassia filed a Joint Motion to Dismiss the underlying complaint in Case No. IPC-E-06-21 and to approve a related June 13, 2007 Settlement Stipulation (Stipulation). Reference IDAPA 31.01.01.272-276. The Commission in this Order grants the Motion to Dismiss and approves the Stipulation.

**COMPLAINT**

Cassia Gulch Wind Park, LLC and Cassia Wind Farm, LLC are QFs within the meaning of the Public Utility Regulatory Policies Act of 1978 (PURPA). Each of the Projects has signed Commission approved Firm Energy Sales Agreements with Idaho Power. Reference Case No. IPC-E-06-10, Order No. 30086; Case No. IPC-E-06-11, Order No. 30087. The Projects will sell their entire output to Idaho Power.

This complaint involves a dispute concerning the terms and conditions of interconnection by QFs to Idaho Power's high voltage transmission system. While the Federal Energy Regulatory Commission (FERC) has jurisdiction with respect to interconnection for non-

QF generators, state commissions, including the Idaho Commission, have jurisdiction with respect to interconnection terms for PURPA qualifying facilities when the facilities sell their entire output to a regulated utility. Citing FERC Docket No. RM02- 12-000, Order No. 2006 Standardization of Small Generator Interconnection Agreements and Procedures, May 12, 2005, ¶ 517 (“States continue to exercise authority over QF interconnections when the owner of the QF sells the output of the QF only to the interconnected utility or to on-site customers”).

## **BACKGROUND**

As reflected in the underlying complaint, as part of its integrated backbone electric transmission system, Idaho Power owns and operates a 138 kV transmission system in the Twin Falls, Idaho area. Idaho Power has received requests for the integration of up to 200 MW of new generation to be connected to the 138 kV system. Most of the requests are from wind generating projects that are PURPA qualifying facilities. The Cassia projects are among those wind generation QFs requesting interconnection. The projects requesting interconnection are placed in a transmission “queue” which is managed by Idaho Power in accordance with rules established by FERC. Exhibit A to the Stipulation shows the requesting projects which have signed facility study agreements, paid the required deposits and remain in the queue in the order they made their interconnection request.

In June 2006 Idaho Power, based on engineering studies, was of the opinion that in order to interconnect with all of the projects in the queue, it would be necessary to construct network upgrades to the transmission system with a total estimated cost of approximately \$60 million. With the exception of a relatively small portion of the system upgrade costs to be borne by Idaho Power, the Company claimed and asserted that the \$60 million cost of its transmission system upgrades should be borne, in the first instance, by the QFs proposing to connect to the Idaho Power transmission system.

On September 27, 2006, the Commission in Case No. IPC-E-06-21 issued a Notice of Complaint (Regarding QF Responsibility for Transmission Upgrade Costs) and established a schedule for written comments. In its Notice and Order No. 30135, the Commission stated

The Commission finds that the issue as to whether transmission system upgrade costs required to meet N-1 contingency planning conditions can and should be allocated to QFs requesting interconnection is a policy issue with generic implications for the state’s major electric utilities, i.e., Idaho Power Company, PacifiCorp dba Rocky Mountain Power and Avista Corporation dba Avista Utilities. The issue is also one that affects PURPA qualifying

facilities. We find the question presented has significant ramifications for the future development of QF projects in areas where transmission upgrade is required. An adequate record before the Commission must be developed. Cassia recommends that the matter be processed pursuant to Modified Procedure, i.e., by written submission rather than by hearing. It remains to be seen whether an adequate record to resolve the policy question presented can be developed in a paper case. The Commission is willing to consider this matter without a hearing unless it subsequently appears that the public interest requires a different procedure and method of record development.

Comments in Case No. IPC-E-06-21 were filed by Idaho Power, Rocky Mountain Power, Avista, Cassia, Exergy Development Group of Idaho, LLC, Commission Staff and other interested parties.

On November 28, 2006, the Commission held oral argument in Boise on the threshold issue presented for Commission determination by Cassia, i.e., whether a QF selling generation to a utility has a responsibility to pay the transmission upgrade costs that result from and that would not be incurred but for the QF's request for interconnection. Thereafter with the tacit consent of the parties the Commission took the matter under advisement and an informal stay of proceedings ensued.

#### **SETTLEMENT STIPULATION**

Idaho Power and Cassia presented for Commission consideration a Settlement Stipulation that they contend is in the public interest and that represents a fair, just and reasonable compromise of the issues raised in Cassia's complaint in Case No. IPC-E-06-21. The Stipulation sets forth the basic principles of the settlement agreement between Cassia and Idaho Power. Upon approval of the Stipulation, Cassia and Idaho Power will negotiate definitive interconnection agreements and amendments or addenda to the Firm Energy Sales Agreements and all other documents or instruments that may be required.

The key component of the Stipulation is the concept of "redispatch." Idaho Power's estimated cost of approximately \$60 million to complete necessary transmission network upgrades was based on the assumption that the requesting projects in the transmission queue would not be dispatchable. Pursuant to Stipulation ¶ 9, Cassia has agreed to install, at its expense, equipment and communication facilities necessary to reduce its energy output to a predetermined set-point within ten (10) minutes of when Idaho Power requires a reduction to the set-point. Of course, Idaho Power notes that it cannot utilize these same facilities to increase

Cassia's generation so the Cassia projects are not fully "dispatchable" in the normal utility sense. However, for convenience, in the Stipulation, Cassia's agreement to reduce generation is referred to as "Cassia Redispatch." Idaho Power will call for a Cassia Redispatch only when necessary to respond to system emergencies or when identified transmission lines are out of service. Redispatch would be implemented pro rata with other requesting projects in the queue who have agreed to similar redispatch protocols.

Based on Cassia's commitment to Cassia Redispatch, and assuming the other requesting projects in the queue make similar commitments, Idaho Power performed additional analysis to determine network upgrades that would be necessary to preserve system integrity. This is referred to in the Stipulation as the "Redispatch Study" and costs for each requesting project are shown in Exhibit B, Table B6 to the Stipulation. As reflected in the Stipulation, the original estimate of \$60 million decreases to approximately \$11 million under the Redispatch Study.

Idaho Power and Cassia believe that the redispatch component of the Stipulation is in the public interest for two reasons. First, the redispatch approach allows Idaho Power to significantly reduce the required investment to preserve system integrity and represents a least-cost, but prudent, solution to the identified problem. Second, the "Cassia Redispatch" commitment undertaken by Cassia allows the Cassia projects to be available to Idaho Power as a resource with some ability to respond to system emergencies.

Flowing from the Redispatch Study, the Stipulation addresses responsibility for network upgrade costs, sharing of network upgrade costs, refunds and interests on refunds and security for payment.

Network upgrade costs will be allocated to each requesting project, including the Cassia projects, based on: (a) their election of whether to be subject to redispatch, (b) their order in the Idaho Power queue, and (c) based on the megawatt interconnection capacity of each requesting project, their pro rata share of the costs for the network upgrade required to interconnect one or more requesting projects and the interconnection capacity that the particular network upgrade adds.

Pursuant to ¶ 13 of the Stipulation, Idaho Power and the requesting projects will share the costs of the five planned phases of network upgrade as follows:

- Idaho Power will assume 100% of cost responsibility for phase one and will include this cost in its rate base. Phase one upgrades will likely have been required for native load in the near future.
- Remaining four phases:
  - 25% of the costs will be provided by the project as a non-refundable contribution in aid of construction (CIAC);
  - 25% of the costs will be funded by Idaho Power and included in Idaho Power's rate base;
  - 50% of the costs will be funded by projects as an advance in aid of construction (AIAC) subject to refund. These costs will be rate based using standard regulatory accounting principles.

While the proposed sharing formula is not based on any rigorous cost study, it reflects the considered judgment of the parties that it is a reasonable compromise of the competing points of view presented in the case and recognizes that electric power transmission systems by their nature are joint use facilities and that many economic theories exist relating to cost allocation of joint use facilities.

In concluding that the proposed sharing formula is in the public interest, Idaho Power is mindful of its earlier position in this proceeding that "but for" the construction of the requesting projects in the queue, the transmission upgrades originally identified by Idaho Power would not be needed to provide adequate service to Idaho Power native load customers. As a result, amounts paid by customers for network upgrades could result in customers paying more than avoided costs for generation from Cassia and other QFs because their generation requires network upgrades. While this situation remains substantially unchanged, Idaho Power believes that there are a number of cost savings that will mitigate, if not totally eliminate, the adverse affects on customers.

First, Idaho Power is of the opinion that the transmission upgrades identified in Table B1 in Exhibit B of the Stipulation will provide the Company with a more robust transmission system serving the Magic Valley and the Wood River Valley. Although it is impossible to quantify the precise amount of system benefit to native load customers that is provided by the network upgrades, Idaho Power nevertheless expects some future customer benefit to flow from the strengthened transmission system.

Second, power generation from QF projects, such as the Cassia projects, serves to some extent to place or defer the need for other generation projects in the Company's Integrated Resource Plan (IRP). The costs for network upgrades for IRP generation projects would normally be recovered from native load customers, either embedded in the energy rate in a power purchase agreement or as a Company transmission investment included in rate base.

Third, under the settlement arrangements set out in the Stipulation, Idaho Power believes it would be able to successfully defend a comparability claim brought by a FERC jurisdictional customer claiming that Idaho Power and the Commission have given unlawful preferential treatment to QF resources.

The final reason Idaho Power believes the Stipulation is fair is that the non-refundable 25% portion funded by the QF project will never be placed in rate base. This combination and the fact that 50% of the network upgrade will be refundable over time, it contends, will provide an economic signal to QFs with the objective of balancing optimal siting of energy resource with interconnection costs.

On June 26, 2007, the Commission issued a Notice of Motion to Approve Settlement Stipulation and Dismiss Complaint in Case No. IPC-E-06-21. Also issued on the same date was a Notice of Modified Procedure. The Commission established a comment deadline of July 25, 2007 and a reply deadline of August 6, 2007. Comments were filed by Commission Staff and two interested parties. Reply comments were filed by PacifiCorp. No party opposes approval of the Cassia/Idaho Power Stipulation.

***Commission Staff***

Staff recommends approval of the Idaho Power/Cassia Settlement Stipulation.

Staff in its comments expressed concern regarding the timing, frequency and duration of expected "Cassia redispatch." If redispatch is expected to occur frequently, for fairly lengthy periods, or during especially critical times, Staff contends, the Company might be paying full avoided cost rates for a resource that cannot be delivered when it is most valuable. Despite an inability to predict the timing, frequency and duration of when redispatch is expected to occur, Staff notes that all parties seem to agree that it is likely to be minimal based on historical data.

In response to a Staff production request, Idaho Power contends that QFs subject to redispatch are likely superior to those QFs that are not, because projects subject to redispatch can

at least be operated at some less-than-capacity level, whereas projects not subject to redispatch must be shut down entirely in the event transmission is constrained. Staff notes that those QFs in the Twin Falls queue are far more likely to experience transmission constraints; projects outside the Twin Falls queue should rarely, if ever, need to be shut down due to transmission constraints.

Staff believes that the cost of relieving transmission constraints should always be balanced against the cost of not having the affected generator plants available for very brief periods of time. When all costs are considered, Staff believes that redispatch may prove to be a much more cost-effective solution than making very expensive transmission system improvements. Staff believes that is the case here.

Staff states it knows of no analysis that could be done to determine precisely, or even approximately, the proportions of transmission upgrade costs that should be borne by Idaho Power and by the QFs. Staff believes that the fairest and most reasonable solution is for the transmission costs to be shared. Staff believes that Cassia and Idaho Power have presented such a proposal.

Regarding the proposed refund method for advances in aid of construction (AIAC), although the term of the refund period is limited to ten years, Staff estimates that the actual refund period will be closer to one or two years if the projects perform as expected. If a project fails to meet its Mechanical Availability Guarantee in any month, it simply foregoes the refund for that month, and the amount foregone is available for refund in future months. Because unrefundable amounts accrue interest, and because the mechanical availability requirement is only 50%, Staff views refunds as being nearly assured unless a project fails to be built or defaults on its power sales agreement. Despite reservations, Staff supports the refund provisions in the Stipulation as a reasonable compromise of the parties.

In assessing the effect of the Stipulation on customers, Staff prefaces its analysis with the observation that “but for” the QFs in the Twin Falls area requesting interconnection, the required upgrade identified in the Company’s earlier transmission study (\$60 million) would not be required to provide adequate service to the Company’s native load customers. The Company, Staff notes, contends that there are benefits to be realized from the upgrades (Table B-1 in Exhibit B of the Stipulation) that will mitigate, if not totally eliminate, the adverse affects on customers. Staff addresses each of the benefits advanced by the Company and concurs in its ultimate conclusion.

Staff in its comments believes that the most compelling argument advanced by Idaho Power in support of the Stipulation proposal for sharing of transmission upgrade cost is recognition that QF projects displace or defer the need for other generation projects in the Company's Integrated Resource Plan (IRP). Costs for network upgrades for IRP generation normally are recovered from native load customers, either embedded in the energy rate or through utility transmission investment included in rate base. If Idaho Power were not contracting with QF projects, Staff contends it would likely be acquiring similar types of generation through a Request for Proposal (RFP) process and incurring related transmission investment expense.

Staff recommends that the proposal presented herein be accepted as a model that could be used by other utilities.

***PacifiCorp***

PacifiCorp objects to extending the Cassia/Idaho Power cost allocation method, as recommended by Staff, to other utilities. PacifiCorp notes that it was not a party to settlement discussions between Cassia and Idaho Power or to the transmission study undertaken by Idaho Power in the Twin Falls area even though PacifiCorp's Midpoint-Summer Lake transmission line is part of the electrical system where these QFs are interconnecting with Idaho Power. Exhibit C in the Settlement Stipulation lists only the underlying system of Idaho Power and is not inclusive of other utilities that may be impacted by the system upgrades and redispatch scenarios proposed.

PacifiCorp is also concerned that by Idaho Power agreeing to a settlement where they pay up front for the network upgrade cost of an interconnection request, it will cause an increase in Idaho Power's revenue requirements and may cause a change in Idaho Power's FERC filed tariff rate. As a user of Idaho Power's transmission system, PacifiCorp states that it would likely be subject to increased transmission costs necessary to serve its retail customers. PacifiCorp is concerned that a broad rule implementing the Settlement Stipulation could set a precedent that PacifiCorp might be forced to follow if a QF connects to the Company's system in the Goshen area where constraints exist and which involves multiple utilities.

PacifiCorp notes also that the Settlement Stipulation provisions do not take into consideration any impact to existing customers or to legacy transmission agreements such as the Restated Transmission Services Agreement (RTSA) between PacifiCorp and Idaho Power. For

