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September 30, 2013

VIA ELECTRONIC AND U.S. MAIL

PUC Filing Center
Public Utility Commission of Oregon
PO Box 1088
Salem, OR 97308-1088

Re: UM 1182 (Phase II) – In the Matter of PUBLIC UTILITY COMMISSION OF OREGON, Investigation Regarding Competitive Bidding.

Enclosed for filing in Docket UM 1182 are an original and five copies of Idaho Power Company's Opening Comments.

A copy of this filing has been served on all parties to this proceeding as indicated on the attached certificate of service.

Very truly yours,

Wendy McIndoo

Wendy McIndoo
Office Manager

Enclosures
cc: Service List

BEFORE THE PUBLIC UTILITY COMMISSION OF OREGON

UM 1182

(PHASE II)

In the Matter of PUBLIC UTILITY COMMISSION OF OREGON, Investigation Regarding Competitive Bidding.	**Opening Comments of Idaho Power Company**

Pursuant to Chief Administrative Law Judge ("ALJ") Michael Grant's Prehearing Conference Memorandum of August 5, 2013, Idaho Power Company ("Idaho Power" or "Company") submits the following Opening Comments addressing the eight comparative risk items applicable to utility-owned generation ("UOG") and power purchase agreements ("PPAs") that remain following the issuance of Order No. 13-204 in this docket. The Company appreciates this opportunity to file comments with the Public Utility Commission of Oregon ("Commission").

I. BACKGROUND

The Commission re-opened UM 1182 to address certain issues identified during the Commission's investigation into the potential build-versus-buy bias in docket UM 1276.[1] In Order No. 11-001 the Commission noted that current Competitive Bidding Guideline 10(d) requires the Independent Evaluator ("IE") to "evaluate the unique risks and advantages of utility benchmark resources." The Commission directed parties to provide the following in this phase of UM 1182:

[1] *Re Public Utility Commission of Oregon Investigation Regarding Performance-Based Ratemaking Mechanisms to Address Potential Build-vs.-Buy* Bias, Docket UM 1276, Order No. 11-001 (Jan. 3, 2011).

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> We want a more comprehensive accounting and comparison of all of the relevant risks, including consideration of construction risks, operation and performance risks, and environmental regulatory risks. We also want more in-depth analysis of all of these risks. We invite comment on the analytic framework and methodologies that should be used to evaluate and compare resource ownership to purchasing power from an independent power producer.[2]

In late 2011 and early 2012 the parties to this docket convened a series of workshops in an attempt to develop an issues list that would form the basis of the analysis moving forward. As reflected in Staff's Status Report filed on January 3, 2012, the parties preliminarily identified 12 items for further study and investigation and were unable to further narrow the issues list. Following the submission of comments on the proposed issues, the Commission directed the parties to initially examine four issues: (1) Cost Over- and Under-Runs; (2) Counterparty Risk; (3) Heat Rate Degradation; and (4) Wind Capacity Factors.[3]

In Order No. 13-204 the Commission made preliminary determinations regarding the first four issues and directed the parties to submit opening and reply comments on the remaining eight issues.[4] The Commission also provided further guidance, indicating that parties' comments "should initially address whether the risk factor is related to resource ownership, and provide support for any conclusion reached."[5] Further, if a "risk factor is related to ownership, the party should provide recommendations to help the IE's comparative analysis of that risk item for utility benchmark resources and other resource

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[2] Order No. 11-001 at 6.

[3] Order No. 12-324 (Aug. 23, 2012).

[4] Order No. 13-204 at 11.

[5] Order No. 13-204 at 11.

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options."[6] The Commission also made clear that recommendation should be for qualitative, rather than quantitative, adjustments.[7]

II. DISCUSSION

A. End Effects/Options at the End of a Resource's Life.

This risk factor relates to ownership and addresses the residual or "terminal" value of a generation resource. The terminal value measures the remaining economic value of project assets and attributes that exhibit useful lives and economic benefits beyond the estimated life of the generator. These assets and attributes include the natural resources or land, leases, permits, buildings, pipelines, transmission, and inter-connection facilities. In particular, the underlying site control/access via leases and/or owned land rights can extend well beyond the initial estimate for the expected life of the generator(s). In the case of generation from natural resources such as hydro, wind and other renewable resources, there is inherent value in the site itself (windy location, water flows suitable for hydro generation, high solar insolation, etc.). These "high value" renewable resource locations are often scarce or unique in their suitability for generation permitting, construction and proximity to transmission facilities. Terminal value can also include the value of continuing to operate the generator beyond the originally projected useful life of the asset. It is not uncommon for utility generation assets to continue beneficial operations long after their initial "book life." The terminal value of UOG is retained by the utility for the benefit of customers.

For PPAs, on the other hand, the independent power producer ("IPP") retains all of the value associated with continued generation and all other value related to the site at the end of the contract term. Although contractual terms can provide options for a utility to

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[6] Order No. 13-204 at 11.

[7] Order No. 13-204 at 11.

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obtain some value at the conclusion of a PPA's term, there is no guarantee that this will occur. Therefore, in this respect UOG provides greater customer benefits than PPAs and to the extent that a benchmark resource provides a terminal value that the IPP project does not, the RFP analysis and the IE should account for this value differential in the comparative analysis.

B. Environmental and Regulatory Risk.

The assumption underlying this risk factor is that the generation resource owner, whether the utility or an IPP, will be responsible for the costs required to comply with future environmental regulations. Thus, this risk factor does relate to resource ownership. However, it is unclear whether there is a material difference between a UOG project and an IPP project with respect to these risks. When Idaho Power develops a benchmark resource, the bid price includes assumptions regarding future regulatory compliance based on the information available at the time that the bid is developed. Presumably, an IPP bid does as well. In the event of unanticipated regulations, or regulations that differ from the assumptions used to develop the bids, a PPA may provide less customer risk if the IPP contractually agrees to assume all environmental regulatory risk associated with the generation resource. However, in Idaho Power's experience, IPPs are not willing to accept all risk associated with future environmental regulations. For example, an IPP would not likely accept the risk of future costs associated with the regulation of carbon emissions. Staff has likewise observed that it is "very unlikely that an IPP would agree to cover unlimited costs associated with potential changes in environmental regulations."[8] Moreover, the inability to accurately predict the nature and cost impacts associated with environmental regulations that were unanticipated when the bids were being developed means that accounting for the impact of unknown future regulations in the comparative

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[8] *Staff's Recommendation for Initial Topics for Further Analysis* at 2 (Mar. 19, 2012).

analysis will be difficult, if not impossible. And even if the IPP does accept the full risk for future compliance costs, Idaho Power's past experience with IPP developers show they will simply abandon the project if the forward-looking economics of the project do not show a profit. Therefore, the IE's comparative analysis should consider whether the bids reasonably account for anticipated future environmental regulations, but should not otherwise include the impact of unanticipated environmental regulations in the analysis.

C. Construction Delays

Idaho Power does not consider the risk associated with project delay to be significantly different between Idaho Power projects and projects developed by IPPs. In Idaho Power's experience, an Engineering, Procurement, and Construction ("EPC") contract for the construction of UOG will generally include remedies in the event of a construction delay. Likewise, PPAs generally include remedies in the event that the IPP experiences a delay in constructing its project. And in either case customers will not pay the costs associated with either the UOG or the PPA until each project is actually in service.[9] Moreover, in the event of a delay in the on-line date for either UOG or a PPA, the utility will need to go to market to purchase replacement power. Market prices may be either higher or lower than the costs of either UOG or the PPA, and in both cases the utility and its customers will be taking the risk associated with changes in future prices absent any PPA contract provisions that shift this risk back to the IPP. Therefore, Idaho Power believes it is better to resolve contract delay issues as part of contract negotiations with an IPP as opposed to making it a key part of the RFP analysis.

[9] For UOGs, the "used and useful" standard prohibits a utility from including in rates a resource that is not yet in service. Similarly, the terms of the PPA will generally protect customers by ensuring that customers are not paying for power that is not being delivered.

D. Changes in Forced Outage Rate Curve

The forced outage rate relates to the availability of the generating resource. Generally, a PPA will include terms whereby the IPP will guarantee a certain level of resource availability. Similarly, when Idaho Power develops a benchmark resource, the bid specifications will include a reasonable level of forced outages in line with industry standards. Idaho Power relies on the expertise of the IE to verify that the project specifications for both UOGs and PPAs are reasonable. To the extent that UOG exposes customers to increased risk due to forced outages, those risks are mitigated by the Commission's ratemaking practices, e.g., the exclusion of unusual outages from normalized rates. Further, Idaho Power anticipates that the cost impact resulting from increased forced outages at a UOG project will be minimal and would not result in a material difference in bid pricing even if the IE were to assume greater than anticipated outages. For these reasons, the comparative analysis should focus only on ensuring that both the benchmark resource and IPP project include reasonable outage rate assumptions.

E. Changes in Fixed O&M Costs over the Resource Life.

Idaho Power does not consider changes in fixed O&M to present a significant difference between UOG and an IPP project. While a PPA will typically prohibit an IPP from passing through to the utility unexpected increases in O&M costs, if those costs materially increase then Idaho Power anticipates that the increased costs will prompt the IPP to ask for contract renegotiation or seek other relief. Thus, PPAs include a customer risk associated with unexpected increases in costs. Similar to forced outage rates, Idaho Power does not believe that the cost impacts of changes in fixed O&M costs over the life of a resource are significant enough to warrant additional comparative analysis by the IE. Therefore, like forced outage rates, the IE's comparative analysis should focus only on

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ensuring that the O&M costs included in both the IPP proposal and a benchmark resource are reasonable.

F. Capital Additions over the Resource Life.

Idaho Power does not consider capital additions to be a factor that differs significantly between utilities and independent generators. When developing a benchmark resource bid, Idaho Power includes in the bid price all reasonably anticipated capital additions that will occur over the course of the resource life. The Company assumes that IPPs do the same when developing their bids. In the bid evaluation process, Idaho Power relies on the experience of the IE to ensure that all costs and all cost components are included in both utility and independent bids. In this way, this issue is already accounted for in the bidding process and therefore Idaho Power makes no specific recommendation related to this issue.

G. Changes in ROE over the Resource Life.

The return that Idaho Power earns on UOG will change over the life of the resource as the Commission-approved return on equity ("ROE") changes. However, it is impossible to accurately predict how a utility's ROE will change over the life of a resource and it is difficult to imagine how predicted changes in ROE could be applied in a consistent and effective manner. Therefore, Idaho Power believes there is no basis to compare a future utility ROE to the ROE included in an IPP's bid.

H. Output/Heat Rate/Power Curve at the Start of Resource Life.

This issue addresses the comparison of the resource's actual performance at its in service date to the performance metrics assumed in UOG or IPP bids. The actual resource performance will not be known until the in service date and therefore cannot be a basis by which the IE can compare an IPP bid to a benchmark resource. Therefore, this risk factor should not be included in the IE's comparative analysis.

III. CONCLUSION

Idaho Power appreciates the opportunity to file these comments and looks forward to continuing to work with Staff and stakeholders in this phase of this docket.

DATED: September 30, 2013.

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CERTIFICATE OF SERVICE

I hereby certify that I served a true and correct copy of the foregoing document in Docket UM 1182 on the following named person(s) on the date indicated below by email addressed to said person(s) at his or her last-known address(es) indicated below.

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