

Committee Minutes:

Subcommittee on Renewables

Senate Majority Caucus Room

State Capitol, Boise, Idaho

October 27, 2003

9:30 a.m.

Minutes

The meeting was called to order by Cochairman Representative George Eskridge at 9:30 a.m. Other subcommittee members present were Cochairman Senator Brent Hill, Senator Joe Stegner and Representative Bert Stevenson. Senator Clint Stennett was absent and excused.

Others present included Ron Williams, Idaho Consumer Owned Utilities Association; Andrea Mihm, Sullivan and Reberger; Neil Colwell, Avista Corp; Russell Westerberg, PacifiCorp; Kevin Kitz, U.S. Geothermal; Bill Eastlake and Ron Law, Idaho Public Utilities Commission; Russ Hendricks, Farm Bureau; Rich Hahn, Idaho Power and Peter Richardson, Industrial Customers of Idaho Power. Staff members present were Mike Nugent and Toni Hobbs.

Mr. David Hawk, JR Simplot Company, was the first speaker. He stated that the issue with regard to natural gas in Wyoming is that not including Alaska, it is probably the largest natural gas resource in the United States. In 1993 a discovery was made outside of Jackson Hole, Wyoming called Jonah Creek. Since that time 4.3 trillion cubic feet of natural gas have been discovered at this site. Combining with another area close by the total is 10 trillion cubic feet of natural gas available.

There have been ten pipeline proposals and in **Mr. Hawk's** opinion, seven will be built. Of these seven, none of these pipelines will come to Idaho or the northwest. All of these pipelines are heading south and east. This means that the region is losing its competitive advantage as the "blackhole" for producers. The more pipelines, the more transparent that market becomes. In this case, Chicago will become the trading hub where most of the gas will flow. As a result of this, the Northwest Industrial Gas Users invited the Wyoming Pipeline Authority to meet and discuss what needs to be done to get some of that gas into the northwest.

Mr. Hawk continued that the way for utilities to incorporate renewables into their portfolios is through their Integrated Resource Plans. This process is underway now and is attended by numerous energy experts. Representatives of industrial customers as well as residential

customers are also involved. In his opinion, this is the way to plan for the future. As a company, JR Simplot thinks it is good public policy to add some renewable resources to the generation mix. They disagree with mandating any fixed percentages from any level of government. It is important to work through the process with everyone being involved but mandating certain percentages denies an important economic understanding of what really happens in the market place with electric costs. **Senator Hill** asked for more detail of what the integrated resource plan would look like. **Mr. Hawk** commented that with the exception of peaking units, it is time for the west to go back and look at what is good public policy. To continue to use a "just in time" resource such as natural gas to base load for the generation of electricity is not good public policy. For example; using natural gas to make electricity to heat your home is about 42% efficient; using natural gas to heat your home with natural gas is about 83% efficient. It is ridiculous to use a "just in time" resource when other resources such as coal or nuclear are available and are more efficient. What comes out of these integrated resource plans is a commitment from the utilities that they will start looking at other renewable energy sources. The integrated resource plans need to show that there are opportunities of electric generating resources still available to be used in the mixed at some price level that is reasonable. Idaho utilities seem to be very receptive to this.

Mr. Hawk, continued with a presentation on Cogeneration as a viable energy option for the intermountain west. This is available at <http://www2.state.id.us/legislat/legislat.html>.

Why Co-Generate?

Electricity is most often generated in one of three ways

- From steam systems at an efficiency of 26%
- From simple gas turbines at an efficiency of 35%
- From combined cycles, gas turbine and use exhaust for steam turbine at an efficiency of 46%

COMMON POWER CYCLE THERMAL EFFICIENCIES

- Simple Steam Cycle 25% - 35%
- Generate steam at high pressure exhaust steam from steam turbine to condenser.
- Simple Gas Turbine 30% - 35%
- Gas Turbine driven generator with exhaust to atmosphere.
- Combined Cycle 50% - 60%
- Gas Turbine driven generator with exhaust used to make high pressure steam, and high pressure steam used to generate additional electricity in steam turbine.
- Gas Turbine-Process Steam 75% - 85%
- Gas Turbine driven generator with exhaust used to make low pressure steam for process.

POSSIBLE CO-GENERATION ALTERNATIVE

Match free steam from gas turbine to average facility process steam load, and then duct fire waste heat recovery boiler to meet peak steam loads.

Currently the company needs 475 therms of natural gas per hour to generate 38,000 pounds of steam and 1,500 KW to operate the rolling equipment in the plant with a total utility budget of \$2,688,000.00 per year.

Can a combined heat and power plant (CHP) or a cogeneration plant reduce that budget? Out of the 1.1 million cubic feet of gas the plant needs a day, they are getting double use of the energy. The energy makes electricity and provides the steam requirements needed.

Summary of Technology

- The source is designed to be base loaded but because we have process boilers it is fully dispatchable.
- The gas turbine will require overhauls but the life of the system is 40 years.
- If base loaded a capacity factor of 90% to 95% is expected.
- The capital cost are estimated at \$1,150/kw
- Incremental operating costs \$18.90/MWh
- Lead time of 2 years to permit, develop and construct.
- The technology exists, it is proven, and reliable.

Environmental Impact and Alternative

- The alternative to the combined heat and power system is to burn 463 therms/hr for the process and 341 therms/hr for the power, a total of 804 therms/hr.
- The combined heat and power cycle only requires 621 therms/hr for the same result.
- 23% less fuel is burned
- 23% fewer emissions are generated.
- Combined heat and power is good for the country.

In **Mr. Hawk's** opinion, this CHP project will provide the following positive externalities:

- Added Positive Economic Viability to the Host Facility
- Dual Use of an Energy Source
- Added Employment
- Added Property Tax Rate Base
- Added Income Tax Revenue Stream
- Internal Electrical consumption may free resources and help to relieve Transmission Constraints
- Added resource to the Regional Generation Pool
- Net addition of Nox and CO2 may be less
- Initial Generation Pricing may exceed Local Utility WACOE but is set by State PUC and is therefore, Just and Reasonable and is based upon the Avoided Cost as set in Open Hearings.
- Return on Capital Invested and Payout may not meet Host Company Guidelines especially during constrained economic times.

FINANCING and OWNERSHIP OPTIONS

- PURPA Qualified Facility
- Host Facility
- Third Party with Steam Contract to Host
- Partnership with Local Electric Utility (They can own up to fifty percent of a QF.)
- Adds effectively to their Rate Base

Since no one knows where the market is headed, it makes good sense to use the same energy twice.

Mr. Hawk summarized that this is a project that represents the following:

- the same single fuel consumption being used twice
- improved efficiency in the boilers
- reductions on the emissions stream of a typical boiler
- an easily dispatchable resource
- a dependable base load resource that can be taken down for maintenance during high water flow times
- should qualify for the federal carbon credit
- a balanced resource that is located in an industrial load center
- the fuel source price can be fixed for a number of years
- the utility as a partner can dispatch for longer periods in return for capacity payments

In the Simplot Company's opinion, cogeneration is a future opportunity that is unlimited to the northwest that many people have not taken advantage of. If this had been done on the Snake river in the 1980s and ten to fifteen year supply of natural gas would have been locked in at under \$2.00. This would be the new low cost new resource today.

Today, they bring up cogeneration as a conservation function of using the same fuel twice. Therefore, they feel it should qualify as both a green resource and as a renewable resource and hope the committee would consider it as such.

Senator Stegner asked **Mr. Hawk's** opinion on whether PURPA will still exist after the national energy bill is passed. **Mr. Hawk** stated that one particular amendment states that if a state does not have open access (meaning an industry cannot go out and acquire their own electric supply on a real time basis and have it delivered to their facility) the state will still have PURPA. This leaves PURPA in effect in most areas of the nation. A unique aspect of PURPA is that it is market sensitive.

Senator Stegner stated that the committee is not eager to have to mandate percentages of renewable energy and that they have spent more time exploring incentives that would attract projects to be built in Idaho. The dilemma is in how to structure a system that offers incentives without mandates while still using the bidding process to get the most efficient and cost effective sources of power to benefit consumers. **Mr. Hawk** responded that the consumer benefits by gas fire-combined cycle combustion turbines with a heat rate of 7,000, low NOx emissions and no

transmission lines to be built. The negative about this is they use natural gas. On the surface it is cheapest to build a gas fired-combined cycle combustion turbine. **Senator Stegner** commented that the 240 odd megawatts selected for their renewable program were delivered under the avoided costs that Idaho has set.

Senator Stegner asked if there is anything the state can do to encourage that some of the energy from the Wyoming development comes to Idaho. **Mr. Hawk** commented that it is important, first of all, just to be aware of the situation. He suggested a resolution by the Idaho legislature to the congressional delegation making them aware of the situation and stating what is happening and suggesting investigation of ways to get some of that energy for Idaho. The point is that Idaho has enjoyed being the "blackhole" of energy for many years for the Canadian and Wyoming producers. There was not much direction for gas to flow to. Today that is a different story. Gas flows in all directions. It would help if utilities were encouraged to work with producers to lock gas supply prices for the next three or four years. This would help stabilize those prices. **Mr. Hawk** stated that continuation of this committee is also a good step in staying on top of what is happening in the energy industry. Other states do not have such committees.

Representative Eskridge asked if mandates or RPS are put in place will the opportunities for cogeneration be eliminated. **Mr. Hawk** said no but mandating eliminates letting the market find the correct mix of renewables for its area. Mandates cause utilities to find the biggest renewable project and use it to meet the mandate without looking at other sources. Integrated resource plans allow utilities to look at all resources available. Incentives with tax postponement of some kind would allow the utilities research and development time to discover which renewables are best suited for which areas. A direction, not a mandate, would be the best way to go.

Representative Eskridge asked how using cogeneration makes natural gas a renewable energy source. **Mr. Hawk** answered that it is renewable to the extent that you are using the same resource to produce energy twice. Essentially it is more efficient, not necessarily renewable. **Representative Eskridge** clarified that by becoming more efficient by using cogeneration, it actually reduces the demand for natural gas and in the end provides more price stability. **Mr. Hawk** said that was correct if everyone did it.

Mr. Mike Nugent, Legislative Services Office, was introduced to discuss what recommendations the subcommittee wants to make to the full committee regarding renewable energy.

Issues

- Renewable portfolio standards - state vs. system wide

Mr. Nugent distributed a copy of the Nevada statute that describes their portfolio standard for renewable energy. This is available on the Internet at <http://leg.state.nv.us/NRS/search/NRSQuery.cfm>. This document includes a definition of renewable energy that includes biomass, geothermal, solar and wind. Cogeneration could be added if that was the wish of the committee. This document includes the mandated percentages

and the bidding process that Nevada used to develop their program. There is also the issue of how to make a program like this system wide as opposed to state only.

- System benefit fund

This was brought up at a past meeting. Some states, especially when the industry was being deregulated, developed a system benefit fund. A charge would be placed on kilowatt hours and the money in this fund would be used for good public purposes such as weatherization, green power, conservation and the like.

- Anaerobic digesters

This has been an issue for the last two years. Legislation from the last session gave digesters a different reimbursement rate than other renewable sources. **Senator Hill** asked for review of that legislation. **Senator Stegner** clarified that there were two pieces of legislation that were companion pieces. One was a tax credit bill and the other was a state PURPA bill that mandated that utilities purchase back power from green power sources. This was similar to PURPA but with longer contract terms and higher generation capacities. The most significant part of this legislation was that it mandated the contract be for at least one cent over the avoided cost of the utility as an incentive to the producer. **Mr. Nugent** added that the one cent was removed because it was found to violate FERC rules.

- Interconnection rules

This was brought to the committees attention at the last meeting. For independent power producers this is an important issue. For these producers the ability to enter into the grid to market power needs to be made easier and more fair.

- Production tax credit
- Investment tax credit

These items both involve tax incentives. The legislation from last year used an investment tax credit approach. It has been suggested that a production tax credit might encourage more alternative sources to come on line. A production tax credit might also give more assurance that the plant will actually produce power.

- Premium and/or avoided cost for alternative energy facilities

If a renewable portfolio standard model is used with mandates, this would not be an option.

- Issues related to geothermal

At the last meeting, there was discussion of the hindrances in state code and that some federal leasing guidelines make it difficult for geothermal projects to get started. There is also the issue of the leases required when state lands are used.

Representative Eskridge stated that to encourage renewables in Idaho the committee can recommend mandates, incentives or leave everything alone and let the utilities develop their own plan. **Senator Stegner** suggested having audience members address the issues that have been discussed.

Mr. Neil Colwell, Avista Corp, commented that in the past he has discussed investment tax credits with the entire committee. In his opinion, a production tax credit could be quite expensive that would result in a direct transfer onto the state utility customers. He presented a draft of legislation modeled after House Bill 377 from 2001. This was the Broadband tax credit. His new draft proposes:

- a five year window for the tax credit
- doubles the tax credit rate from 3% to 6%
- eliminates that cap on the tax credit
- increases the tax credit rate by an additional amount for development in low income or low employment counties
- the energy has to be sold in Idaho

In **Mr. Colwell's** opinion, if these investments are not being made in the state currently because of an investment barrier, this seeks to reduce that barrier. It does not cost the state anything if no one makes the investment but, if no one is currently making the investments, the state is not gaining anything either. This gets to the point that it is better to get a percentage of something rather than 100% of nothing.

Senator Hill stated that Idaho has a sort of three legged tax base that includes sales tax and property tax as well as income tax. Other states have used incentives in the form of exemptions for certain periods of time on sales or property taxes. He asked what **Mr. Colwell** thinks would be the most motivating incentive to encourage economic development. **Mr. Colwell** said that he did not consider these other options when drafting his legislation. He commented that a sales tax exemption on equipment to build these plants would make investment more attractive. Property tax affects the finances of each county and even though that might be reduced for a period of time, the county would gain other benefits that could help offset that loss.

Senator Hill also asked how Idaho can compete with the 35% investment tax credit in Oregon. **Mr. Colwell** said that his understanding of Oregon's investment tax credit involves natural gas development such as for automobiles and transportation. **Senator Hill** asked for confirmation that a 10% federal tax credit exists for solar and geothermal energy development. **Mr. Colwell** said that he could not confirm that.

In response to a question from **Representative Eskridge**, **Mr. Colwell** stated that the broadband tax credit did encourage expansion in rural areas and was quite successful in the Burley area. He did not know how successful it was in northern Idaho.

Senator Stegner asked if a production tax credit would place a burden on the rate payers. **Mr. Colwell** said that presupposes how the tax credit will be paid for. If it were taken from the general fund, a production tax credit would have a more statewide effect. **Senator Stegner** asked if it would be possible to have a production tax credit calculated on the basis of production and a tax credit against the company income taxes. **Mr. Colwell** said that could happen and Avista would have no objection to exploring that possibility. The impact to the general fund would have to be looked at.

In response to the five year sunset proposal, **Mr. Colwell** stated that many investment tax credits that are granted have sunset provisions so the legislature can revisit their effectiveness. Some have been as short as one year. The point of this investment tax credit is that if these proposals are waiting out there for development, these incentives should allow the proposals to come forward very quickly. If any investment is made during the five year period, the tax laws and recovery would stay in place for the following 14 years. He was reluctant to propose any longer than five years to allow this experiment to take place.

Mr. Colwell continued that one item in the legislation that was taken from the federal PURPA code allows for a certain percentage of use of fossil fuel to stabilize the renewable.

Representative Eskridge commented that, in his opinion, one use of tax incentives is to get the price of renewables down where they are more competitive with conventional sources of energy. If the legislature does nothing, will the utilities be deterred from investing in renewals. He also asked if there are any incentives out there, without the legislature doing anything, to encourage adding renewables to the mix. **Mr. Colwell** answered that if no incentive is offered, the price of wind power is getting close to convention energy prices. There are issues of firming up wind and with transmission costs but Avista is looking at an RFP for wind at this time. In his opinion, there is not really a disincentive is nothing is done because some renewables are getting more competitive in price already.

Kevin Kitz, U.S. Geothermal, was the next to testify. He spoke to the committee regarding what the committee can do to encourage renewables without issuing mandates and what specifically would benefit a developer. He offered the following three possibilities that the legislature could send to the PUC as mandates to implement with the benefit going to the developers and the rate payers:

- 1. Look at increasing the size of a PURPA contract from 10 MW to 30 MW.

For U.S. Geothermal, this is one of the largest barriers to having an economical project. Economy of scale is extremely important in power plants and currently that is not available to renewables.

- 2. There is a huge assumption in the avoided cost rates that is not accounted for in those avoided costs. That is what is the price of natural gas.

Avoided cost basis for power plants is based on a Northwest Power Planning Council forecast of natural gas prices. This is for 20 years and is inherently hypothetical. No one today can sign a gas contract for 20 years. It is too uncertain. This fluctuating gas price brings a political and economic uncertainty. Renewables provide security of price and can do so for long periods of time. In his opinion, there is a way to trade benefits between renewables and traditional energy sources. Renewables provide a security in fuel price that no gas plant can ever possibly hope to equal. That benefit is not being captured. This benefit would be to the rate payers.

- 3. Fossil fuel fired plants start with a low capital cost and a high fuel cost. Renewable plants start with high capital costs and low fuel costs.

This is one of the biggest barriers to successfully implementing renewable projects. One characteristic of renewables is that as time goes on the benefit of the renewable increases while the gas price uncertainty grows as time passes. Renewables need longer contract terms because cutting the contract off at 20 years causes the rate payers to lose the long term benefits of renewables. He suggested an incentive that gives the renewable developer an extra few cents or dollars per kilowatt hour and demand that after 20 years the renewable developer provide an additional ten years of power at a very low cost. A more specific example is below:

- Over 20 years the levelized cost currently is 5.5 cents. His proposal would be to give renewables an extra ½ cent on either the levelized or nonlevelized cost for 20 years. In exchange for that extra money, the renewable will provide another 10 years of power at the levelized cost.

Senator Stegner stated that was very similar to the legislation that was proposed last year. The problem that was discovered last year is that mandating any amount over the avoided costs violates FERC rules. **Mr. Kitz** said that the term avoided costs is defined by each state. Also by extending the contract to 30 years, the avoided cost benefit is being captured. This is being traded for a payment up front.

Mr. Ron Williams, Idaho Consumer Owned Utilities, was the next speaker. **Mr. Williams** stated that to the extent that mandates or incentives are put in place regarding renewables, consumer owned utilities are unique in many ways from the investor owned utilities. This comes primarily from the fact that to a large degree the investor owned utilities are vertically integrated from generation all the way through the end distribution. The cooperatives and municipalities that make up the consumer owned utilities are simply distribution companies with some transmission. Most transmission is provided to them by the investor owned utilities or Bonneville Power Administration (BPA). Ninety-five percent of the generation distributed to their members is provided by BPA. As BPA customers, long term contracts have been signed that are full

requirement contracts. To simply mandate that some level of renewable generation be purchased causes contractual issues as well as financing and securitization issues.

More importantly, BPA has some pretty rigorous mandates from a number of entities including the Northwest Power Planning Council. BPA also has either mandated or voluntary renewable programs and is probably the largest producer of wind power in the region already. If programs are developed for the state, **Mr. Williams** suggested there needs to be some recognition of the renewables that the consumer owned utilities are already supporting. **Senator Stegner** asked if all of the renewable energy produced by BPA is produced out of state. **Mr. Williams** said that was correct and this fact would have to be considered if mandates are put in place.

Enforcement is another issue that is important to the cooperatives. In his opinion, once the Legislature establishes the policy, control should be given to an administrative agency such as the PUC to implement and evolve that policy so that it fits the needs of the state.

Representative Eskridge asked if the Pacific Northwest Generation Company (PNGC) has any sort of renewable program within their generation portfolio. **Mr. Williams** said he did not have specific information on PNGC. He suspects it is very heavily weighted or dominated by BPA generation.

Representative Stevenson asked how the Raft River Cooperative would be affected if they were forced to take the power of the 150 MW wind farm located close by. **Mr. Williams** said that it would ruin them because it is too much power for them to use and they would have to try to sell the difference. A project this large is even large for Idaho Power to take on. This is why care needs to be taken when mandating fixed percentages of renewables.

Mr. Williams continued with a discussion of the Broadband Tax Credit legislation. In his opinion, the Broadband tax credit was very important to the Syringa Networks and allowed them to build out approximately a \$30 to \$40 million backbone in the state of Idaho. **Mr. Williams** client Cable One did not see the Broadband tax credit as that significant of an incentive to attract capital into Idaho compared to investments being made in other states. One reason for this was that the cap on the tax credits was too low.

He suggested weighting the investment to encourage rural economic development with possibly a broad based tax credit in rural areas with respect to any type of utility or generation infrastructure. Another incentive to look at should be a limited period of sales tax exemptions. The cost of these projects would benefit greatly from this type of exemption and in his opinion could be more significant than an investment tax credit.

Mr. Rich Hahn, Idaho Power, offered his comments on renewable energy incentives. He stated regarding **Mr. Kitz'** comments that there is built into the current pricing structure of the avoided cost some recognition of the capital component of a nonfuel project. The twenty year rates are higher and the developer can choose between a levelized and nonlevelized approach. Nonlevelized would be that the price would increase over the life of the contract from the year the project came on line. Levelized combines that with the higher rate on the front end for the life of the contract.

Regarding the integrated resource plan, **Mr. Hahn** said the process is moving forward. A meeting was held last week with representatives from the renewable industry as well as conventional energy discussions that included nuclear and coal and gas fired. This process is going to give consideration to all of the various options and at some point there will be discussion of the societal benefit of having renewables in the portfolio. At some point this process will involve input from the public and hopefully a plan will be submitted to the PUC by next summer. In his opinion, this process can achieve much of what this interim committee has talked about over the last couple of years regarding the development of renewables.

Mr. Hahn continued that Idaho Power has a process in place to acquire least cost generation for their customers, including renewables. Regardless of that the discussion of mandatory state policy continues. When you get to the crux of the matter, renewable generation does not pass economic or market tests that are considered in utility planning efforts, and therefore they are typically supported via a public policy involving tax incentives or additional cost borne by the utility customers. If this committee feels that it is in the public interest to have such incentives, maybe that incentive should be carried by the citizens who are receiving it. That is where a tax credit type of approach would be a good vehicle to use to achieve this.

There are many challenges to Renewable Portfolio Standards (RPS). First of all it is a mandate or it could be considered almost a hidden tax because someone will be paying for it. If targets are established for Idaho, an RPS does not forego an investor owned utility's requirement to purchase power under PURPA. If RPS targets are put in place for renewables sited in Idaho, investor owned utilities will still be obligated to by from PURPA projects. This could cause a doubling up of the amount of energy being purchased from small projects. Idaho Power currently has 68 projects under contract totaling 175 MW of power. This is an expense to their customers of about \$50 million dollars a year.

The integrated resource plan will take care of all of this. It takes care of the need of the utility into the future. If it is decided that the state wants to go in this direction there would have to be a connection between the target and the need. The other issue is cost recovery. Idaho Power would want all of the costs recovered. If this is determined to be beneficial to the citizens of Idaho and becomes policy, they should bear the burden for it in some way. It should not just be the responsibility of the investor owned utilities to purchase renewable power. Everyone should share the responsibility.

Senator Hill asked how interconnection fees are determined and can developers appeal if they feel these fees are unfair or unreasonable. **Mr. Hahn** said that although he is not an expert, FERC is getting involved in this area for larger projects over 20 MW and saying they have jurisdiction. There has also been word that they are going to be looking at less than 20 MW projects as well. Idaho Power has offered comments about this because the PUC has the tariff on how interconnections are treated with a small power producer.

There is a tariff in place regarding how the interconnection for customers is treated with different levels for under 100 KW and over 100 KW. Over 100 KW requires a more in-depth analysis of how that energy would be delivered to the system. There is a governing tariff on how to approach what the reasonable costs would be to connect that system safely to the existing

system. The integrity of the system has to be considered. **Mr. Eastlake, PUC**, added that on the smaller projects the states, in general, have asserted to FERC that they are doing just fine with their own rules. In a PUC proceeding about two years ago, the Idaho Power interconnection rules were straightened up in a sense. These rules were simplified, streamlined and made more consistent with the existing PURPA structure which has also changed over time. It is a tough situation all the way around with the PUC in the middle. It is difficult to find a balance between the utilities and those who want to connect to the system. In response to **Senator Hill's** question about appealing the fairness of interconnection fees, **Mr. Eastlake** said that it is his understanding that the PUC can adjust that fee if it is deemed to be unfair.

Representative Stevenson asked what the size of most small hydro projects that Idaho Power buys power from. **Mr. Hahn** said all of the projects connected to Idaho Power range from very large up to 10 MW down to 150 KW or smaller. **Representative Stevenson** commented that, in his opinion the committee needs to decide if small hydro is going to be included in the definition of renewable energy. **Mr. Hahn** commented that if hydro is included as a renewable and RPS are established, consideration needs to be given for projects that are already in place.

Representative Eskridge asked what is included in the interconnection fee that the PUC established. **Mr. Eastlake** stated that he is not familiar with the specifics but that there is a tariff on file that has several different requirements including technical studies and liability insurance requirements.

Mr. Peter Richardson, Industrial Customers of Idaho Power, spoke to the issue of the PURPA contract length that was discussed by **Mr. Kitz**. In 1995, the PUC issued an order requesting the investor owned utilities to reduce the contract length from 20 years to 5 years and the size to which a qualified facility is entitled to the published avoided cost rates down from 10 MW to 1 MW. Last year, at the request of the Independent Energy Producers of Idaho, the PUC reversed that decision and went back to a 20 year contract and a 10 MW threshold for entitlement to the published rates. This 20 year number is arbitrary. In 1980 the contract term was 35 years and there are still contracts in existence that are still operating.

Mr. Richardson said that the fundamental issue is that the renewable energy industry will not be encouraged to develop in Idaho unless they can get a power purchase agreement that works for them. That means having a rate that is attractive enough to spur development of the projects. Also, having a standard contract the does not have to be renegotiated with the utility each time is important. Going to 35 year contract, in **Mr. Richardson's** opinion, would provide an attractive enough rate to encourage these projects.

A comparison of all of the qualified facilities (QF) that Idaho Power has brought online since 1980 to the cost of projects brought on line for Idaho Power's own system showed the QF system as a whole coming in cheaper than Idaho Power's system.

Mr. Richardson continued that 10 MW number is also arbitrary. The reason Idaho Power has many 10 MW projects is because that is the threshold. If a project is over 10 MW, it still qualifies for a PURPA contract but the rates have to be negotiated. That has proved to be impossible. In response to a question from **Senator Stegner**, **Mr. Richardson** stated that in an

ideal world there would not be a size limit on when a project is eligible for the avoided cost rate. The PUC sets the avoided cost rates based on the cost of the new resource for the utility and the utility's resource deficit period. As the resource deficit period gets farther into the future, the avoided cost rate goes down. When the PUC is constantly checking the avoided cost rates, the system works very well, especially for Idaho.

Mr. Russell Westerberg, PacifiCorp, was the next speaker. PacifiCorp serves customers in eastern Idaho through Utah Power and Light. He pointed out the Utah Power and Light has not asked for a rate increase for the last 16 years. There has been rate relief because the company has pursued conscientiously integrating the least cost generation resource into its portfolio. They have also been very active in the area of renewables and have green tag programs in all of the states in which they operate.

Due to the fact that PacifiCorp operates in six states, **Mr. Westerberg** stated that if the committee requires a certain percentage of renewables in a companies portfolio, it should be on a system wide basis, not just Idaho based. If it is Idaho based only, any additional costs should be able to be passed on to the customers of the utility involved. Also the economic development policy of incentives for location of renewable projects needs to be kept separate from the operation of a public utility and their customers.

Representative Eskridge asked how the discussion of changing the size of the facility and lengthening the contract term would sit with PacifiCorp. **Mr. Westerberg** said that he is very comfortable with having the PUC setting the avoided cost rates and the length of contracts as it does today. **Mr. Hahn** agreed with **Mr. Westerberg** on this issue.

Senator Stegner commented, and the other subcommittee members agreed, that based on the meetings that have been held by the subcommittee, the following items will **not** be items for consideration:

- 1. No property tax exemptions would be offered due to the desire to encourage economic development in rural areas. Exempting property tax could have a negative effect on these counties. This would especially be true if counties were given the option to offer property tax exemptions by allowing rich counties more leverage and creating pressure for the poorer counties to do the same.
- 2. Sales tax exemptions would not be considered due to the fact that another committee is looking at removing many of the sales tax exemptions currently in existence. It does not make sense to add more exemptions at this time.
- 3. No structured RPS for the state or renewable percentage targets (mandates) will be set. Although this will make it difficult to get the bidding efficiencies necessary to get the projects developed. It was discussed that without targets, the investor owned utilities might be more likely to use their own facilities for renewable energy rather than buying power from independent producers. The subcommittee stated that they would like to give the integrated resource plan time to develop and see what happens.

Senator Stegner continued that he would like the committee to have an energy bill this year to present to the legislature. **He made a motion stating that the PUC be asked to increase the size of PURPA projects up to 30 MW and to extend the contract length up to 30 years. Senator Hill seconded the motion.**

For discussion purposes **Mr. Eastlake** stated that he is not sure how the legislature tells the PUC to change these things. Currently the PUC does set the size of the projects. **Mr. Nugent** added that Idaho does not have a state PURPA law in place and such a law could easily be put into the statute. **Representative Stevenson** cautioned that putting something like this in statute would eliminate the PUC's ability to readjust if necessary.

Representative Eskridge asked if by saying the PUC has to do this, does it take the bidding process further away as opposed to saying based on economic feasibility, the PUC can increase the contract to 30 years and increase the resource size to 30 MW. **Senator Stegner** said that this does not preclude larger facilities being constructed. This is probably not the best method to encourage the best offers/bids to utilities or to the state. In terms of encouraging development of these assets across the state, something needs to be done to assure fairly easy entrance into this arena for the smaller facilities.

Representative Eskridge asked if the avoided cost calculation would be some assurance that the length of contracts were also in line. **Mr. Eastlake** said that putting 30 MW size and a 30 year contract number into the avoided cost formula comes up with a number higher than the current avoided cost of 5.1 cents. He commented that the existing methodology takes into account when the utility needs resources. If the utility does not need resources, the calculation of the specific avoided cost would fall to a low enough level that it would prevent the utility from having to buy a lot of unneeded power. There is really no magic number. **Mr. Ron Williams** commented that the commission uses length of contract and limitation in the same way the federal reserve uses it's tools to manage the money supply in the economy. By fixing two of their tools in concrete, their ability to respond to many situations is limited. He suggested getting information from the PUC commissioners on how they manage load growth of a utility. This would include the conflict between the utilities wanting to build their own plants versus having to purchase it from someone else. Mandating these two numbers might shift the balance too much over to the independent power producers. He also stated that there might be other ways to give pricing assurances to larger projects rather than just extending the limit to 30 MW. The larger the threshold is, the more quickly the avoided cost rate has to be recalculated or the rate payers do get harmed.

He continued that contract lengths should not necessarily be driven by the developers financial needs. With longer contract lengths, technology issues also come in to play. Will the pipes for a geothermal plant last 30 years and so on.

Senator Stegner stated that he is not worried whether this is done as a statute change or simply a recommendation to the PUC. Since it will not actually be introduced for several months, he suggested getting a response from the PUC for the entire committee about how this would affect them. He is interested in sending a policy message to the PUC that the legislature wants a little

more consideration given to the developer as opposed to the utility. This is just a way to begin a dialog with the PUC on the pros and cons of such a policy change as well as the preferred method of implementation. **Representative Eskridge** agreed with those comments.

The motion carried unanimously by voice vote.

Senator Stegner said that the most beneficial policy the committee could establish is probably with some type of investment tax credit (ITC). He suggested offering renewable energy facilities an investment tax credit that doubles the incentive from 3% to 6% with an incentive for hardship counties similar to the Broadband but limiting it to an additional 2%. This tax credit would have a five year sunset date with no caps and no transferability. The scope of this ITC could be broadened to include conservation efforts such as cogeneration plants. This would not include cogeneration as a renewable energy source, it would include them for conservation reasons.

He continued with a suggestion that renewables also be offered a production tax credit, not including cogeneration. In essence this would offer a premium, paid by the rate payers, to renewables as further incentive to develop plants in Idaho. He clarified that renewables would have two basic potential tax advantages including the investment tax credit as well as the production tax credit. His proposal would have the production tax credit lasting 10 years with carry forwards so it is not entirely used up. This would hopefully encourage the facility to actually put into production and also might be a way around getting an additional incentive to renewables over the avoided cost that was considered last year.

Items that will have to be discussed to move the above suggestion forward include:

- **What is considered a renewable? Does hydro qualify?**
- **The transferability and no caps issue**
- **The contract terms and length**

Representative Stevenson asked if cogeneration would get both the 6% and the additional 2% is located in a hardship county. **Senator Stegner** said that was correct. **Representative Stevenson** commented that at some point he would like to see a breakdown of what the effects of these incentives would be on the state budget. **Senator Stegner** agreed, but added that they are just avoided costs. **Mr. Colwell** said that he has the 2001 documents that were prepared by the Tax Commission that showed how the broadband tax credit affected the individual counties. **Senator Hill** cautioned that a program like this could cost the state up front because those credits could be used to offset other income that the developer would otherwise pay taxes on. There would of course be long term benefits. **Representative Stevenson** said it is not a huge issue due to the fact that it will take some time for projects to come on line. **Senator Stegner** added that once the numbers have been examined, the no cap issue could be revisited. **Representative Eskridge** asked if there is a need to offer the incentives to cogeneration plants or will these be developed anyway. **Senator Stegner** said there is no way to know for sure and that the same argument could be made for renewables. **Representative Stevenson** added that in meetings he has attended there are some opportunities for cogeneration development, especially with regard to ethanol production.

Senator Stegner made a motion that the subcommittee recommend to the full committee an investment tax credit that increases from 3% to 6% with an additional 2% for locating facilities in hardship counties with a five year sunset. This tax credit would have no cap and no transferability and would include cogeneration facilities.

Senator Hill seconded the motion. It was clarified that the no cap and no transferability issues go together.

The motion carried unanimously by voice vote.

The next motion, by Senator Stegner, was to establish a production tax credit for renewable electric generation facilities only with a ten year carry forward option that would be of value to approximately ½ cent per kilowatt hour.

Senator Hill seconded the motion after clarifying how the ten year carry forward works.

Representative Eskridge asked if small hydro projects are included as renewables. **Senator Stegner** suggested asking the full committee if small hydro should be included. **Representative Stevenson** stated that he would like the subcommittee to decide on a definition of what is classified as a renewable before voting on the motion. In his opinion, small hydro should be considered a renewable. **Senator Stegner** said that, in his opinion, hydro should not be included as a renewable because Idaho already has a lot of hydro projects in existence. The goal of these incentives is to help diversify the energy sources in Idaho and including hydro does not help with diversification. If there are projects waiting to be built and this incentive helps that happen, he would be comfortable including hydro as a renewable. **Representative Eskridge** said that even though he believes hydro should be included, he would hate to see the committee get hung up on including it to the degree that it interferes with the policy being developed. **Representative Stevenson** felt comfortable discussing the issue with the full committee at the next meeting.

The motion carried unanimously by voice vote.

Mr. Nugent commented that the Nevada statute defines renewables as biomass, geothermal, solar energy and wind. It does not include hydro. He asked the subcommittee if that would be something they would feel comfortable using. **Representative Eskridge** said he would like to go in the direction of having an actual definition of renewables and outside of the question of hydro, he would be in favor of this. **Senator Stegner** added that cogeneration would also have to be defined. He also suggested that the legislation should include a preamble as to why the legislature is doing this as policy of the state to encourage renewables for the benefit of the state and the citizens. **Mr. Eastlake** said that there is a federal definition of cogeneration in PURPA law.

Senator Stegner continued that the definition in **Mr. Colwell's** legislation needs to limit the power generation to the projects specifically defined as renewables. **Representative Eskridge** agreed that it needs to be limited. The term low-impact hydro is included in the legislation and there was a question as to what exactly that means. Using the term new hydro was dismissed due

to the fact that people would take that to include large dams and the like. The subcommittee did not want to go in that direction. **Mr. Colwell** commented that any hydro project that is able to be licensed at this time will be low impact. There is technology in existence that is very low impact including generators that allow fish to swim through them with very little problem. Another technically hydro project is pump storage that may be quite renewable. This essentially pumps water into a lake what rates are low and when rates are high, the water is pumped back out allowing the developer to live on that margin. It was decided to continue this discussion with the full committee.

Representative Eskridge was nominated to report on the subcommittee findings to the full committee. He encouraged other members to participate in that report.

The meeting was adjourned at 3:30 p.m.