

## Committee Minutes:

# Legislative Council Committee on Energy

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Senate Majority Caucus Room

State Capitol, Boise, Idaho

October 28, 2003

9:30 a.m.

The meeting was called to order by Cochairman Senator Hill at 9:30 a.m. Other committee members present included Senator Joe Stegner, Senator Laird Noh, Senator Sheila Sorensen, Senator Clint Stennett, Cochairman Representative George Eskridge, Representative Maxine Bell, Representative Bert Stevenson, Representative Steve Smylie and Representative Charles Cuddy.

Others present included Peter Richardson, Industrial Customers of Idaho Power; Kevin Kitz, U.S. Geothermal; Patricia Dailey, Idaho Wheat Commission; Glen Pond, Utah Power; Russell Westerberg, PacifiCorp; Brenda Tominaga, Idaho Irrigation Pumpers; Russ Hendricks, Farm Bureau; Skip Smyser, Connolly and Smyser, Chtd; Andrea Mihm, Sullivan and Reberger; Molly Steckel, Givens Pursley; Gayle Batt and Norm Semanko, Idaho Water Users Association; Chuck Oxley, Associated Press; Don Dean, United Electric Coop; Ralph Williams, Idaho Consumer Owned Utilities; John J. Williams, Bonneville Power Administration; Ken Harward, Idaho Association of Cities; Rich Hahn, Idaho Power; Woody Richards, Moffatt Thomas; Bill Eastlake, Ron Law and Paul Kjellander, Public Utilities Commission and Jane Gorsuch, Intermountain Forest Association. Staff members present were Mike Nugent and Toni Hobbs

After a correction was made to the June minutes removing Representative Wayne Meyer's name from being absent as he is no longer a member of the committee, the minutes were approved as read on a motion from **Representative Stevenson and a second from Senator Noh.**

**Mr. Ken Harward, Idaho Association of Cities,** spoke to the committee regarding the taxation of power plants and substations. He stated that problems are arising with the siting of substations being moved closer to demand areas. This moves them closer to where people live while giving those communities no property tax benefit from the substation because they are centrally assessed. **Representative Smylie** asked if this was similar to the situation in Pocatello where the substation is in Power County and they receive all of the tax revenue while Bannock county only gets the pollution. **Mr. Harward** said that was correct and that is an example of why this issue needs to be addressed. **Representative Stevenson** asked if this would involve review of existing

sites or just new sites. **Mr. Harward** clarified that it would just be for future sites. He added there would need to be two sets of rules in place for some period of time regarding the different sites. This is just in preliminary stages and the Association is not prepared to make a proposal. They just wanted the committee to be aware of the problem.

**Mr. David Hawk, JR Simplot Company**, was the next speaker. He commented that the way for Idaho Power, Pacificorp and Avista, in his opinion, to incorporate renewables into their portfolios is through the legitimate Integrated Resource Plan (IRP). This is a mandated process that occurs every two years and is currently underway with many different experts participating. He added that the PUC merely accepts the IRP, they do not endorse it. It is just a sort of guide.

As a company, JR Simplot believes that it is right for public purposes to add some renewable resources to the generation mix. They disagree with mandating a fixed percentage both nationally and at the state level.

**Mr. Hawk** said that PURPA has worked in Idaho. The application of the avoided costs and surrogate avoided resource principles have been adopted by the Idaho PUC through many open hearings with a lot of testimony from all sides of the issue. Idaho has had a fair amount of investment that would not otherwise have occurred. Most of this investment has been in hydro but projects also include cogeneration and biomass. All of these have provided jobs and tax base as well as additional generating resources. In the beginning pricing was misunderstood and prices got a bit out of line but they did adjust eventually.

The current status of PURPA before Congress at this time includes an amendment that has been approved by both houses of Congress. This states that if an industrial end user of electricity does not have full time open access to get electricity from any provider you want, PURPA will remain in effect.

Regarding conservation issues, the JR Simplot Company, believes that in the United States to have a short term effect on energy prices, everyone needs to conserve. It is important to remember though that conservation dollars at a processing plant compete with dollars throughout the plant that will increase production or keep them competitive in a world situation. Consequently, there needs to be a maximum three year payout for conservation dollars. The collection of conservation dollars is not inappropriate for utilities as long as that money is allocated through a committee process and industrial end users can self direct where their dollars would go. This is the current situation in the Idaho Power service territory. He clarified that the utility should not be responsible for using their investment dollars to help others conserve and stated the conservation dollars would come from a premium on the rates paid by all rate payers.

**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>. He stated that this option represents the same single fuel consumption being used twice, an improvement in the efficiency of boilers, reduction in the emissions stream from regular gas fired boilers, easily dispatchable energy resource, a dependable base load resource that can be taken down during high water times, a resource that qualifies as green in the Simplot Company's opinion and can qualify for a carbon tax credit. It offers a balance resources located at an industrial load center

and the fuel source price can be fixed for a number of years. Utilities, as a partner, can be involved in a PURPA project.

### 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%

**Mr. Hawk** stated that in his opinion to use natural gas to fire combined cycle combustion turbines in the future as base load facilities is poor public policy. Natural gas is a "just in time" commodity. Without the "demand destruction" that took place in the natural gas industry in the last six months, there would not have been enough to fill storage to where it is today across the United States and prices would be even higher. Prices today are the highest sustained prices for natural gas that have ever existed for consumers. The Simplot company does believe natural gas is an appropriated peaking fuel. It is not a scarce resource but drilling is sometimes difficult or scarce.

### 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

**Mr. Hawk** said that 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 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.

The JR Simplot company would hope that the committee not tag the renewables with a mandated percentage requirement. In **Mr. Hawk's** opinion the three investor owned utilities are willing to sit down and work with customers and be part of a discussion group to work things out to come up with responsible opportunities that will allow the state to experience some growth in the area of renewables.

**Representative Smylie** stated that even the most optimistic forecast shows renewables filling only about 10% of the load in the future. **Mr. Hawk** said that, in his opinion, it is time to take a serious look at nuclear energy. He also said that coal is pretty easy to site in Wyoming and even though it requires transmission lines, it will be cheaper than if the same amount gas fired electricity transmission is put in due to the fact that gas prices will go up. **Representative Smylie** agreed that nuclear energy is a viable option that needs to be looked at. He asked if **Mr. Hawk** would rather see utilities locate coal plants in Wyoming as opposed to locating generation capacity nearer the load in the treasure valley. **Mr. Hawk** said that was correct.

**Senator Stennett** asked what the percentage of value is for the carbon credit. **Mr. Hawk** said it is very uncertain with many variables involved. It also depends on what happens with the energy bill in Congress and is something the state should watch closely.

**Mr. Hawk** explained that the current avoided cost works as follows:

- If someone wants to bring a project online in January 2004 for 10 years, the levelized rate is 4.6 cents. The unlevelized rate starts at 4.1 cents and runs to 5.2 cents with an average of 4.6 cents. The PUC is looking at raising this due to natural gas prices.

He explained that for a cogeneration project like he explained above, if they could get another cent above the avoided costs, the payout could be reached that would meet the economic hurdle rate for any industry and then it can be paid back over time.

**Representative Cuddy** asked if cogeneration plants qualify for demand power rates. **Mr. Hawk** said that due to the steam boilers they can be used for anything. They are small enough that they can be taken down and brought back up very quickly and easily. **Representative Eskridge** asked if using these plants for demand would waste steam. **Mr. Hawk** said using these plants to base load is the most efficient way to use them. They do have the capability to be ramped up or down very quickly.

**Mr. Bill Eastlake and Lou Ann Westerfield, PUC** were introduced to discuss the federal energy bill that is currently in conference committee in Congress. There appears to be a hangup to the final bill regarding ethanol and a gasoline additive and liability issues of producers but not a lot of information is being released at this time.

One piece of this legislation that has been discussed in the past is electric reliability. In all versions of this bill there has been something dealing with mandatory reliability standards across the country. The northwest already has a voluntary set of standards with penalties for enforcement but the rest of the country has nothing. The blackout that was experienced this summer in New York makes it obvious that some reliability standards need to be set and there was a move to separate this section out of the comprehensive energy legislation and deal with it separately. There seems to be general agreement that something will be done in this area.

There is a new piece that has been added to the bill that purportedly has to do with reliability. This is associated with some FERC orders of the last several years dealing with Regional Transmission Organizations (RTOs). This basically states that regional transmission operators should get together and combine and turn the operation and control of their transmission facilities over to a regional group in order to facilitate the operation of a free market for electricity nationwide. RTOs have given way to FERC orders for Standard Market Design. These incorporate the RTO concept with a number of other issues. The whole thrust is to make a free market in electricity and is hugely controversial. Passage of the standard market design has nothing to do with assuring reliability. The southeast and northwest regions of the nation are not in favor of this at all while the northeast and Midwest are okay with it. There is a formal group called The Alliance of States Protecting Electricity Consumers containing groups from the southeast and northwest. In letters of support and such to Congress and to the public this group has been stressing the following points:

- Reliability - they support the inclusion of the reliability provision and mandatory enforcement system
- They have supported the delay of the standard market design proposal and in **Mr. Eastlake's** opinion any legislation drafted will postpone implementation of standard market design until 2007.
- The alliance also wants to make the formation of RTOs voluntary driven by the needs and the benefits perceived by the individual regions.
- The alliance supports native load protection. This is possibly the foundation for the Alliance's stand against FERC. In a state like Idaho that still has fully regulated utilities, the utilities have a statutory obligation to provide just and reasonable service to people in the state. Transmission was built to serve that end. Utilities such as this are very wary of turning over the control and operation of the transmission system to a regional group because the ability to serve individual customers could be jeopardized.
- Eminent Domain - FERC is insisting that transmission siting is a huge problem and that they should be given the power of eminent domain and let them decide where to site transmission lines. Most states do not support this idea. It is difficult to find an example of a state actually getting in the way of transmission lines being built.

What the final energy bill looks like and when it will come out is up in the air at this time.

**Senator Noh** asked if the PUC receives regular updates from our congressional delegation on what is happening with the energy bill. **Mr. Eastlake** said that Commissioner Marsha Smith is in semi-regular contact with Senator Craig's office. It was clarified that neither Interim Committee Cochair was receiving updates. **Mr. Paul Kjellander, PUC**, stated that part of the reason for not receiving updates is due to the fact that there has been a lull in activity recently. He stated that the communication between the PUC and Senator Craig's office has been very open and added that he would be happy to forward any updates he receives to committee members.

**Senator Noh** asked if progress was being made in getting Commissioner Marsha Smith on FERC. **Mr. Eastlake** said that theoretically that is still open but until the energy bill and elections get out of the way, not much thought will be given to that issue.

**Senator Noh** said that he had heard that there were going to be some strong financial incentives for people to get back into the small hydro development business similar to the 1970s. **Mr. Kjellander** said they have heard a little bit of information along those lines but nothing has actually shown up in any legislation. **Senator Stegner** asked if that would be a good thing or a bad thing. **Senator Noh** stated that is a matter of degrees. In the 1970s it caused quite a ruckus because there were filings on what seemed like every drop in every river in the state until legislation was developed to bring some stability to the issue.

**Ms. Lou Ann Westerfield, Policy Advisor to the PUC**, spoke to the factors involved in the price of natural gas. She said that the price of gas is not going to go down anytime in the foreseeable future. There are several task forces that have been formed on a national basis to look at what can be done in terms of mitigating the price increases that all consumers across the country are facing in natural gas prices. These task forces are also looking at what can be done long term to help with the supply issue. The factors that are playing into the natural gas situation both in Idaho and nationally include:

- Gas storage did not hit anywhere within the range of the last five years. By the end of September when the gas storage season is over nationally, gas storage was still down 5% to 10% of the five year average. Anytime supply is not what it should be, pressure is put on prices.
- When natural gas prices did start to rise over the past two to three years, drilling did not really proportionally increase. Some theories say this is because companies went out of business who used to do drilling or sold off their drilling equipment due to low prices. Currently, drilling is up about 10%. So there is some hope in this area except that most of the oil fields in the U.S. are older and becoming depleted.
- The growing demand on using natural gas for electricity generation is a double edged sword. Electricity generation now counts for 20% of natural gas use nationally. This growing demand has meant that supplies are drained in many areas and so the prices have increased. Almost all new generation for electricity is gas fired. It is cheap to build and can be located closer to population and load areas because the pollutants are not as serious as coal or nuclear alternatives. It is also quick to build. There is hope that some of this natural gas use will be mitigated due to the renewed emphasis on renewables, especially wind.
- Weather plays a huge role in the price of natural gas. Areas of sustained cold weather in certain sections of the country will put upward pressure on natural gas prices. Utilities are working very hard to get conservation information to customers in their bills or through websites. Cutting usage through conservation is the best way for people to lower their bills and conserve supplies for another time.

Another option that will help long term with the natural gas supplies is the movement toward using liquified natural gas. There are facilities on the both coasts and the Gulf Coast that are set up to receive gas from ships and convert it into methane suitable for end users. The issue here is anytime things are shipped in, enough facilities have to be in place to handle the gas. There is a shortage of these facilities at this time. More are on the drawing board but there will be some environmental opposition to such large industrial facilities. Also there is always a security risk when transporting fuel from South America, Central American and the Middle East. This involves security of the fuel as it comes across the ocean and also for the facilities on the coasts that receive the fuel. There are no quick answers to the natural gas price issue. There is hope and the greatest hope lies in groups such as this committee and the National Organization for Utility Commissioners that have formed task forces to stay on top of these issues and become aware of what can be done.



**Representative Smylie** asked if there is any active exploration in eastern Idaho on the overthrust belt. **Ms. Westerfield** stated there is a lot of speculation going on about the entire area of western Wyoming, eastern Idaho and northern Utah and the potential of that area. There is no actual pipe in the ground yet. **Senator Sorensen** asked for **Mr. Hawk's** comments on the same question. **Mr. Hawk** added that there is no drilling activity in that area and that there is also no leasing activity either.

**Mr. Hawk** commented that it is interesting to note that many of the smaller companies in Canada are becoming master limited partnerships and are not drilling anymore. This is an exit strategy for the management of those companies and consequently they are acquiring proven properties and doing only development drilling. In 1980 there were 4,000 rigs active, today the rig base is almost totally utilized at 1,000 rigs in the United States and 460 rigs in Canada. Instead of drilling, the U.S. independent have been paying off debt and buying back shares of stock.

**Mr. Hawk** stated that Wyoming, not including Alaska, 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 has been discovered at this site. Combining with another nearby area 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. Without this Idaho's price of natural gas will become dependant on Canadians and that price will go up.

**Mr. Hawk** continued that liquified natural gas (LNG) is now full and as of this week storage is back to the national average. Unfortunately this was done on the back of plants being curtailed. Many ammonia plants as well as other plants were such to because the natural gas price was too high. This allowed storage to be made up.

**Representative Eskridge** asked, regarding cogeneration, if adding an electric generator to a food processing plant doesn't actually use more natural gas even though it increases efficiency. **Mr. Hawk** said if the load is thermally balanced it does not use more gas. If everyone used this process, it would put demand on the price of gas but with the amount they are producing the efficiencies outweigh the increase in the amount of gas used.

**Senator Noh** stated that the gas pipeline problems seem to be an area that the committee should be focused on. **Ms. Westerfield** agreed and stated that it would be fair to say the FERC needs to revisit to the process of certification policies for pipelines. One problem with the certification process, besides that fact that it is extremely slow, is that to get a certificate a project has to have at least a 10 year contract for 30% of the capacity of the pipeline. Encouragement from this

committee to the Congressional delegation that this needs to be reviewed might be helpful. **Mr. Hawk** suggested that the committee bring the director of marketing from Northwest Pipeline to make a presentation to help them gain understanding of what a pipeline does to shareholder risk. They are the predominant pipeline through Idaho. A fundamental understanding would show that a pipeline does not put shareholder dollars at risk unless people do not sign up for firm space in the pipeline for a minimum number of years.

**Representative Smylie** stated that adding capacity seems to be the key because once 95% capacity is reached the price seems to go down. He asked what Idaho policy makers can do to encourage increasing capacity. **Mr. Kjellander** agreed that increasing capacity is important. He added that one thing that can help avoid peaks is hedging. The PUC encourages and demands hedging from natural gas distributors and they are held accountable for this. True ups are also done to insure that customers are protected and are not paying for something they shouldn't be. **Mr. Hawk** added that this committee helps put Idaho ahead of other states by staying abreast of what is going on and learning what options are available. He suggested the committee present a resolution encouraging conservation, additional resource and pipeline development and so on. A statement needs to be made to Congress that something has to be done.

**Representative Eskridge** was introduced to report on the subcommittee's meeting on renewables on October 27, 2003. He explained that the subcommittee had met twice over the summer to gather information regarding renewable energy sources. The subcommittee discussed the following three motions as recommendations to the full committee.

- 1. To increase the size of PURPA projects at the avoided cost rate to 30 MW and to extend the contract length to 30 years. There was a lot of information received regarding the difficulty in siting plants due to the size of the plant and the impact of whether it could use the avoided cost rate.
- 2. The second recommendation builds upon the Broadband Tax Incentive that was passed by the legislature a few years ago. There was information presented that it was successful in encouraging broadband investment in Idaho. The recommendation in this case was to double the size of the investment tax credit from 3% to 6% for renewable resources with an extra 2% credit if projects are sited in depressed or hardship counties. This motion provided a five year sunset for the tax credit with no cap or transferability. Cogeneration plants were to be included in this investment tax credit.
- 3. The third recommendation was to provide an additional production tax credit to renewables only at ½ cent per KWH for a ten year period.

In the discussion of what is considered renewable, biomass, geothermal energy, solar energy and wind were included. There was a question of whether low impact hydro projects should be included in that definition and that was left as a discussion item for the entire committee.

**Representative Eskridge** asked **Senator Stegner** to comment on the first recommendation. **Senator Stegner** explained that the subcommittee had a significant amount of discussion about

how to implement an increase in the capacity and contract length of PURPA projects and whether that was a PUC function or should be statutory. In his opinion, he would like the committee to convey this interest to the PUC and have them comment on how they would prefer to see this operate and get assurance that it would actually happen. Putting this in statute is not as important as sending the message that the legislature wants the PUC to be more aggressive in allowing these types of projects to be developed. **Senator Stegner** clarified that it was the intent that the investment tax credit made available for cogeneration projects would only apply to the electrical generating capacity of the project, not the entire project. He continued that the production tax credit is only allowable to renewable projects, it does not include cogeneration.

**Representative Cuddy** said that he would like to get a history on previous cogeneration and PURPA plants that went into effect originally and how many are still operating today. **Mr. Hahn** distributed a handout showing that Idaho Power currently has 68 PURPA projects online with 58 of those being hydro. The proposals for biomass, wind and geothermal show that interest is broadening into other areas.

**Representative Eskridge** asked if PURPA is avoiding the benefits of competition that bring prices down. **Mr. Hahn** said when looking at the current inception to date numbers one needs to keep in mind that these contracts go back a number of years and the rates for some of these contracts include a capacity payment as well as a payment for energy that made the blended rate significant. **Representative Eskridge** stated that, as a rate payer, it would seem that the end user has been locked into a rate that is higher than if PURPA did not exist due to the longer term rates. **Mr. Hahn** said that these rates are higher than the current programs but that is reflective of how the program was set up. Projects today do not include capacity payments. He pointed out that, as the committee considers what to do with threshold terms and megawatts, there is a significant amount and interest in the program today as it exists. The system is growing at about 40 to 50 MW per year based on load growth. One year's worth of growth is already reflected in the contracts under review. He cautioned that the committee make sure that the PUC still has the flexibility to take into consideration the level of interest as well as the needs for the utility and the impact on the rate payers. We do not want to get in a situation where there is too much interest and too many projects that are beyond the ability of the utility to absorb into its growth.

**Mr. Eastlake** commented that it is best to look forward with PURPA, not backwards. In his opinion, there would not be a renewable energy industry without PURPA today. PURPA was put forth in an era where utilities would not buy energy from anyone else and not from nonconventional sources. **Mr. Eastlake** distributed a handout describing PURPA projects, the type of facility, the contract date and term and the KW capacity of each. **Representative Stephenson** commented that this shows that the bulk of these contracts was for 35 years. **Mr. Eastlake** said that was correct. The contracts in the 1980s and 1990s were mainly 35 year contracts.

**Senator Hill** asked **Mr. Kjellander** for his understanding of why PURPA contracts are not currently 30 MW and for 30 year contracts as has been proposed above. **Mr. Kjellander** stated that any business wants certainty and the longer the contract the better the certainty. In terms of the PUC's decision making process, they were looking at certain things. One was that if the projects were too large in size (above 10 MW) with PURPA, it could draw in large projects that

were not located in Idaho. The twenty year term was a compromise regarding contract length. He said that he has mixed opinions regarding extending the contracts to 30 years. One concern is not knowing what this will do to the existing avoided cost structure. Another concern that has been voiced regarding the 30/30 scenario was based on what happens to the price of natural gas and how much flexibility is there too make quick term adjustments if too many megawatts are coming in at a higher price. In essence a brand new avoided cost case would have to be opened. **Mr. Kjellander** said he would like to look at actual numbers before giving them more opinions on what this change could or would do. In response to a question from **Representative Cuddy**, **Mr. Eastlake** explained that the current natural gas price and the projected natural gas price are part of the current avoided cost calculation. The current rate is based on a certain gas price and a certain assumed escalation rate. Once that avoided cost is fixed, it stays the same for however long a contract is set for.

**Senator Stegner** asked how the committee or the legislature should convey to the PUC that the policy of the state needs to be more proactive in the support and encouragement of renewable energy development and how will the PUC convey to the committee or the legislature that they have received the message. **Mr. Kjellander** stated that the PUC lives by statutes passed by the legislature but his desire would be that this message would not have to be codified. He suggested a resolution from the legislature as a way to get the message across. The Public Utilities Commission would not ignore a resolution that has the blessing of the entire legislature. All of the commissioners on the PUC would like to see the development of renewables but they have another responsibility to help insure that customers receive the lowest cost energy available. The PUC will move in whatever direction the legislature desires. **Senator Hill** asked if implementation of these procedures would increase the risk to customer for higher prices. **Mr. Kjellander** said that since there are many side benefits added by these proposals, in his opinion these would probably offset any risks involved, but he would like to do some further analysis.

In response to a question from **Representative Cuddy**, **Mr. Kjellander** stated that firm energy is different for different resources. When it is said that wind, even though it is nonfirm, has firming capabilities, that tends to be for a utility that is more thermally oriented. For a system that is more hydro dependent, that could be a different story. There are a number of streamflow issues involved in cases like this. **Mr. Kjellander** added that with the cost of relicensing dams and such, there is no such thing as cheap hydro. **Representative Cuddy** agreed with that comment. He added that, in his opinion, hydro needs to be listed as a renewable.

**Senator Stennett** asked, regarding the list **Mr. Eastlake** distributed, why there have been no new PURPA projects since 1993. **Mr. Kjellander** said that around that time the PURPA rates changed so that it was not as attractive to enter into a project. Since the last avoided cost rate change, Idaho Power has nine proposals in the works so it seems to be getting more attractive again. **Mr. Eastlake** clarified that about 1993 the length of contract was limited to five years with the size decreasing to one megawatt. As a result, no one could do anything. This was done on a case initiated by the utilities and ratified by the PUC. **Mr. Kjellander** added that the last energy crisis and a change in the avoided cost rate that increased the size and contract length of projects are what contributed to the renewed interest in such projects.

**Senator Stegner** commented that the subcommittee had decided that the committee not consider the following issues:

- No interest in offering property tax exemptions for renewable energy development. This is due to the fact that they want to encourage economic development for rural counties and disrupting their property tax base might have the opposite effect.
- No interest in offering any sales tax exemptions due to the fact that there is another committee looking at existing sales tax exemptions for elimination, it didn't seem to make sense to add any other exemptions.
- No interest in the development of the Renewable Portfolio Standard (RPS) or mandated percentages or targets for renewable energy.

**Senator Stegner** continued with a motion **that this committee ask Legislative Services to draft a resolution encouraging the PUC to increase the size of PURPA projects and to increase the contract length.** He added that this could be set aside to give the PUC time to look at the numbers to see what kind of impact it would have on avoided costs. His main concern is to send the PUC a message. **Representative Eskridge seconded the motion.**

**Senator Sorensen made a substitute motion that the resolution be reviewed by this committee after the information has been received from the PUC.**

**Senator Stegner** stated that was the intent of his original motion. He suggested that all of these motions involving documents from Legislative Services would be for further review by this committee at a later date. **Senator Stegner** clarified that the committee would have a draft resolution from the Legislative Services Office with additional information and presentations from the PUC of the impact these changes would have. **Senator Sorensen** said that, in her opinion, it would be better to get the information from the PUC before drafting a resolution. **Senator Stegner** said that would be one way to go but he sees no wasted effort in have a draft resolution developed. The reason for this is mainly to send a message to the PUC that the committee is serious and to move things along. **Representative Stevenson** commented that as he listened to the PUC it seems that going from 10 MW to 30 MW is a big leap. As a result of this, he would like to PUC to be able to consider increasing the size to 30 MW not to be forced to do so. **Senator Noh** clarified that **Senator Stegner's** motion did not specify size or length of contract. **Senator Stegner** said that was correct at this time.

**Senator Stegner** explained that if PURPA is broadened by size and contract length, it will affect those projects that are under those limits and they will automatically qualify for a contract rate with a utility at the avoided costs. He added that he has no problem allowing the PUC to develop rules and procedures that allow them to be able to consider the need and demand in the state for such projects.

**The original motion carried unanimously by voice vote.**

**Senator Stegner made another motion that Legislative Services Office draft legislation for consideration by the committee dealing with an investment tax credit against state income taxes for renewable energy projects. This legislation will:**

- **double that tax credit from 3% to 6% with an additional 2% available for developing a project in an economically distressed county** (using the broadband definition of distressed county)
- **include a five year sunset**
- **not have a cap on the amount a company can take per year**
- **not allow transferability**
- **include cogeneration up to the cost of the electric generation of the plant**
- **include a definition of renewables as biomass, wind, solar and geothermal energy.**

**Senator Stennett seconded the motion.**

**Representative Cuddy** asked if these tax credits are made nontransferable, with that reduce those that would otherwise be in competition for this. **Senator Stegner** said that nontransferability does limit their flexibility. On the other hand, since there is no cap, nontransferability requires specific use by that company and eliminates any submarkets that might otherwise be generated by this type of tax incentive. If a cap is added, transferability would be an option. **Senator Sorensen** asked how the various fiscal impacts of this will be included. **Senator Stegner** said that the fiscal impact statement of this will be subject to several "what if" assumptions. It will be very difficult to estimate utilization and development will include a number of different entities. **Senator Sorensen** stated that it would make more sense to her to have the fiscal impact before the legislation is developed. **Mr. Nugent** commented that the legislation will be drafted very similar to the Broadband Tax Credit bill of a few years ago. He added that with the help of the Division of Financial Management (DFM), he will try to get a preliminary fiscal impact using DFM's econometric model. **Representative Eskridge** said that when this recommendation was developed by the subcommittee, it was with an awareness that fiscal impact will have to be determined. This will only be draft legislation for review by the full committee.

**Representative Bell** clarified that non-utility generators are not included in the term "cogeneration" for this legislation. **Senator Stegner** agreed and stated that the definition of cogeneration used will be the federal PURPA definition. **Representative Smylie** asked how cogeneration fits in with the other renewables. **Senator Stegner** said that cogeneration will be included as a separate category and that it will not be considered a renewable at all. The same rules will apply as far as the percentage of tax credit allowed and so on. **Senator Hill** asked if it is easy to attain the electric generation part of a cogeneration plant. **Senator Stegner** said he did not know. He added though that business have to go through these types of proofs to the tax commission all the time to defend utilization and such.

**Senator Stegner** stated that from the Broadband Tax Credit bill there was a formula used and at inception there were eight counties that qualified as hardship counties. **Senator Hill** asked if the increase in the tax credit for developing in hardship counties in the broadband bill was a phase in to 10%. It was discovered that from 6% to 10% was a phase in depending on what was

developed. **Senator Stegner** clarified that his motion was for a flat 2% increase for developing a project in a hardship county.

**Senator Noh** said that in his opinion this is painting a very broad picture without getting the appropriate information. He assumed the plan is to create some extra financial stimulation for the unregulated entities to build these types of projects. He continued that particularly with wind and geothermal, there is an entirely different set of economics involved especially when it comes to encouraging development in poorer counties. Wind and geothermal will be built where the resources exist with no latitude. Wind projects are already being developed without added incentive and some of them have enormous capital costs. He is not sure it makes sense to provide an extra financial incentive for these projects. Biomass, in his opinion, is a totally different set of needs and circumstances and economics than either wind or geothermal. It seems that this legislation offers a lot of incentives without enough background information. **Senator Sorensen** stated that she is assuming that this is really just more brainstorming in looking at renewables and before legislation is finalized the committee will have the opportunity to gather more information. **Senator Stegner** agreed with that and said that there will be additional information given to the committee to help them make an informed decision. One of the key pieces of this information will be at least a best estimate of the fiscal impact and if that comes in too high, the proposal can be revisited. The main reason, in his opinion, most of these projects will be built is not because of this legislation but it could encourage some development in poorer counties due to the extra 2% credit allowed.

**Senator Stegner** said that the approach of developing legislation by committee is not the most comfortable but it requires a certain amount of faith in order to get to the next level. He asked the committee to do just that. **Representative Eskridge** added that the subcommittee was charged with the task of trying to develop or recommend a renewable energy policy based on the question of does Idaho need to diversify its electric utility industry. There has also been the argument made that the lack of competition is driving the natural gas prices up. Idaho also has an issue with hydro. Idaho Power has 60% of their electrical generation based on hydro and in the northwest on the federal system that is 80%. Idaho is a victim of nature in different years in terms of hydro production and what economic limitations that production may create for the citizens of Idaho. A renewable resource program may be a supplement to that to help insure our economic vitality continues to grow. It was the consensus of the subcommittee to look at incentives rather than mandates. Based on this and what other states are doing with renewables, he encouraged the entire committee to move forward with this proposal and see where it goes. **Representative Stevenson** stated that in the subcommittee discussions it was discovered that there are several wind and geothermal opportunities for development in the state but that due to regulations and such, they need a bit more incentive to help them go forward. He also said that the investment tax credit seems the logical way to go because if projects are not built, the state is not out any money.

**The motion carried by voice vote with Representative Stevenson voting nay due to the issue of not including hydro in the definition of renewables.**

**Senator Stegner moved that draft legislation be prepared that authorizes rewarding of Production Tax Credits for renewable energy production equal to ½ cent per kilowatt hour of the formula for the value of the production tax credit for ten years from the date the project goes into production.**

He clarified that this is for renewable energy as defined in the investment tax credit legislation only and does not include cogeneration. He also added that all of these motions are for projects located in Idaho only. **Representative Eskridge seconded the motion.**

**Representative Stevenson** stated that in his opinion hydro needs to be included as a renewable. The federal PURPA definition includes hydro and by excluding it, Idaho is eliminating anyone with the hydro project from qualifying for any of these incentives. **Senator Noh** said that he was under the impression that hydro was going to be discussed. **Representative Eskridge** clarified that the discussion of including hydro as a renewable would be held after this motion was voted on. **Senator Stegner** clarified that he left hydro off of the motion because Idaho already has a lot of hydro projects in existence and this is an attempt to diversify the state's energy resources. **Senator Noh** said that there are small low impact hydro facilities that fit within irrigation canal diversions that are winners for everyone. **Senator Stegner** suggested that renewables be defined to include low impact hydro projects within canal systems. **Senator Noh** said he would be okay with that because it is specific. **Representative Stevenson** agreed also.

**The motion was amended to include low impact hydro as renewable and defining that to mean only hydro projects in existing canal systems within the state.**

**The motion carried unanimously by voice vote.**

**Senator Stegner made another motion to include this definition of low impact hydro in the Investment Tax Credit legislation. Representative Bell seconded and the motion carried unanimously on voice vote.**

The committee decided that they would like to learn more about the ethanol issue and why Idaho lost an ethanol plant to Oregon at a future meeting.

The meeting was adjourned at 3:20 p.m.