

## Impact of Wind Projects on Customers (PCA)

Idaho Power's most recent annual power cost adjustment (PCA) highlighted our customer's exposure to the significant amount of wind that has come on line in recent years.

As background, the PCA covers costs that vary from year to year, and are largely outside the company's control. These costs are related largely to water levels, gas and fuel expense, transportation expense and renewable power contracts for projects mandated by federal law. Because this was such a low water year and surplus energy sales were weak, expenses associated with PURPA wind projects were fully exposed because the other factors and revenue streams that might offset those costs, simply didn't materialize. (19 percent reduction in water the company uses to power its hydroelectric plants.)

These are the primary factors that contributed to the large increase in this year's PCA:

- About half of Idaho Power's generation comes from its hydropower plants. Hydropower generation from April 1, 2012, through March 31, 2013 was 1.8 million megawatt-hours less than forecasted, a 19 percent reduction.
- Revenue from surplus sales has declined significantly. During those periods when Idaho Power is generating more electricity than its customers consume, the utility sells the surplus generation and shares 95 percent of the revenue with customers. Cheaper energy prices on the open market resulted in \$48.7 million in sales, \$61.4 million less than forecasted.
- About \$62.6 million is attributable to power sales agreements between Idaho Power and renewable energy projects that qualify under the provisions of the Public Utility Regulatory Policies Act (PURPA). The federal act requires utilities to buy energy from qualifying renewable energy projects. About \$60 million of that is from existing wind projects and another \$2 million is from new wind added during the current PCA year.
- About \$23 million is related to Hoku, the Pocatello polysilicon plant that failed last year. The company included the \$23 million in base rates last year in anticipated revenue from Hoku that never materialized.
- To make up for the shortfall caused by these factors, Idaho Power Company's residential customers will be assessed a one-year surcharge of an average 12.5 percent effective June 1. For all customers classes combined, the average increase is 15.3 percent.
- Going forward, the costs associated with PURPA projects will likely be included in base rates during a future rate case. This means that PURPA projects won't have such a

dramatic impact on the annual PC... but ultimately, customers will still be responsible for paying for those projects through monthly bills.

## **Major Considerations Facing Future Wind Development for Idaho-Based Utilities**

- Natural Gas prices play a key role on the price paid by utilities for independently produced wind under the PURPA program. If Gas Prices remain low, the Published Rate will also remain low and new projects will likely not move forward.
- Load growth projections for Utilities will have a huge impact...until we see more demand for power the prospects for large scale wind is diminished. Other resource opportunities, such as energy efficiency and demand side management programs, will also have an impact on what resources are deployed to meet future growth/demand projections. (These resources all carry a cost to dispatch and they will be weighed against the cost of new construction resources....such as wind.)
- EPA standards and other federal regulations that could force the need for new resources sooner than anticipated. For example...if EPA's use of the Clean Air Act is used to accelerate the closure of coal-fired generators because the cost to comply with standards is too high, then resources such as wind might gain more favor.