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IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR APPROVAL OF AN AGREEMENT FOR SALE AND PURCHASE OF ELECTRIC ENERGY BETWEEN IDAHO POWER COMPANY AND RENEWABLE ENERGY OF IDAHO, INC. | CASE NO. IPC-E-04-5<br><br>IDAHO POWER COMPANY'S REPLY COMMENTS |

COMES NOW, Idaho Power Company ("Idaho Power" or "the Company"), by and through its attorneys of record, and, in response to the Comments of the Commission Staff dated April 6, 2004, herewith submits the following reply comments.

At the outset, Idaho Power wants to emphasize that in negotiating rates with Renewable Energy of Idaho, Inc. ("Renewable Energy"), it was not the Company's intent to disregard the Commission's 1996 order, Order No. 26576, which established a methodology for computing avoided cost rates for QF projects larger than ten (10) MW using multiple runs of a computer model.

Staff's comments correctly note that a Commission order remains in effect until it is changed by Commission order. Idaho Power acknowledges that fact. In the case of the contract with Renewable Energy, the Company did not utilize the AURORA model to attempt to compute avoided cost rates for Renewable Energy for two principal reasons:

(1) At the time Renewable Energy approached Idaho Power for a contract, the Company had not utilized the AURORA model to generate avoided costs. Idaho Power had used the AURORA model for some resource expansion comparisons but it did not believe that it had sufficient experience with the AURORA model to rely on the model to accurately determine avoided costs.

(2) Renewable Energy was extremely anxious to execute a contract with Idaho Power so that it could move forward with the development of its project. The Company was concerned that taking the time necessary to modify and test the AURORA model to perform the precise cost-benefit analysis required by the methodology described in Commission Order No. 26576, would have significantly delayed the development of a contract for the Renewable Energy Project.

For these reasons, Idaho Power utilized the Commission-approved energy purchase rates for QF projects smaller than ten (10) MW as the starting point for negotiations with Renewable Energy. Under the circumstances, that seemed to be the best approach for developing avoided cost rates for Renewable Energy that would be consistent with Commission-approved avoided costs. Idaho Power's rationale supporting that decision is more particularly described as follows:

## 1. AURORA Was Designed To Be A General Forecasting Model.

Idaho Power does not know whether making the two AURORA runs in the manner described in Order No. 26576 would result in energy purchase prices that are higher or lower than the negotiated purchase prices contained in the Renewable Energy contract filed with the Commission. Idaho Power's concern about utilizing the AURORA model to compute avoided costs is not driven by an anticipation of higher purchase prices. Idaho Power's concern is solely related to the fact that the Company has not tested the AURORA model sufficiently to confirm if it is appropriate to use AURORA in the manner contemplated in Order No. 26576.

In 1996, when Idaho Power entered into the Stipulation which describes the methodology ultimately approved in Order No. 26576, the Company's system expansion model was one with which the Company had substantial experience in running and applying the model outputs to real life operating conditions. In the mid to latter 1990's, there was a growing national and regional consensus that the burgeoning de-regulated wholesale market was likely to become the primary source of new generation in the region. Order No. 26576 made reference to this changing regional landscape. The Commission noted on Page 6 of Order No. 26576:

> Significant changes have swept through the electric industry since we last examined the issue of contract length. The FERC has mandated open access to the transmission system, thermal technologies have improved, gas prices are low, there is a considerable surplus of energy available in this region resulting in very low spot market prices for electricity and, finally, even the continued existence of PURPA is being called into question. We find that as the industry continues to transform to a more free market model we cannot justify obligating utilities to twenty year contracts for PURPA power.

Order No. 26576 goes on to describe the increasingly competitive nature of the industry and the greater role that free market was playing in energy pricing.

Based on that expectation, the Company moved away from using its then-current system expansion model as the basis for determining future power supply costs.

Several years later, after the bloom went off "the market will do it all" rose, the Company acquired a license to use the proprietary AURORA model and has used AURORA to perform a number of specific tasks in the Company's resource planning process.

Idaho Power has experienced a number of problems with the AURORA model. One example of those problems relates to the assumptions the model used for forecasting wholesale market purchase and sales prices. As originally provided by the vendor, the model did not do a good job of replicating the effect of actual transmission system conditions on wholesale prices. This problem could have a material adverse effect on avoided-cost computations. Idaho Power has made a number of modifications to the AURORA model that the Company hopes will mitigate these problems and result in the AURORA model providing market price results that are much closer to actual system conditions. Bringing the AURORA model to this current status has been a complex and time-consuming effort.

While the Company believes that AURORA can successfully provide the more general analysis needed for IRP purposes, the Company is not confident that it has sufficiently tested AURORA to conclude that two runs of the AURORA model, one with a QF project included and one without, would, in fact, produce pricing and cost data that would precisely quantify the costs that Idaho Power would avoid over a twenty-year period if it acquired a QF resource rather than building another resource or purchasing wholesale power in an amount equivalent to the QF resource's output.

**2. To Avoid Delay, Idaho Power Chose To Use the Currently-Approved Avoided Cost As A Starting Point For Negotiations.**

As previously noted, Renewable Energy was extremely anxious to enter into a contract with Idaho Power so that it could move forward with its development plans.

About the time that Renewable Energy approached the Company concerning a QF contract, the person who was most experienced in operating the AURORA model had recently left the Company's employment. The Company was in the process of training new people to operate the AURORA model.

In light of the concerns Idaho Power had with its ability to properly utilize the AURORA model and the concerns the Company had about the validity of some portions of the model itself, Idaho Power concluded that it would be better to negotiate a contract with Renewable Energy using the approved rates for projects smaller than ten (10) MW as the starting point for those negotiations rather than delay negotiations until such time as the Company could become satisfied that the AURORA model was providing the extremely accurate results that are necessary for long-term fixed-rate QF contract purposes.

Currently the AURORA model is being run almost constantly in preparing the Company's 2004 IRP. The Company now has employees that better understand the model and the Company has made needed changes to the model to increase the Company's confidence in the model's outputs. It is the Company's intention, as soon as the 2004 IRP process is completed, to turn its full attention to the AURORA model to make a final determination that (1) the AURORA model outputs are sufficiently consistent with actual system experience that the output of the model would be a reliable predictor of costs a utility can avoid by adding a specific large QF resource over a twenty-year period, or (2) the AURORA model cannot be used for this purpose and some alternative must be developed.

## Conclusion

Staff's comments correctly note that Order No. 26576 has not been rescinded or changed by the Commission and is still in effect. It is the Company's intention to ultimately be in a position to use AURORA to implement the provisions of that Order or, if it ultimately determines that the AURORA model cannot be used in the way contemplated by Order No. 26576, advise the Commission of that fact and seek modification of Order No. 26576.

Idaho Power acknowledges that it would be desirable to have a consistent methodology for setting avoided cost prices for larger QF projects. Idaho Power commits that it will use its best efforts to efficiently complete its evaluation of the viability of using the AURORA model as a tool to provide that consistent application.

In the final analysis, the Commission must decide if the filed contract between Idaho Power and Renewable Energy is in the public interest. Staff acknowledges that the purchase rates in the filed contract may well be reasonable but qualifies its opinion due to the fact that the AURORA model was not used to test the rates. Idaho Power submits that because the purchase rates in the Renewable Energy contract in total, are less than the currently approved avoided cost rates for smaller

QF's, the rates are reasonable. Of course, the reasonableness of any contract must be viewed in the totality of its parts. Idaho Power believes that taken as a whole, the prices, terms and conditions contained in the Renewable Energy contract are reasonable and the contract should be approved.

Finally, the reasons supporting Idaho Power's decision to negotiate rates with Renewable Energy are equally applicable to the QF contract negotiated with the J.R. Simplot Company that is currently awaiting Commission review and approval. Idaho Power requests that the Commission take administrative notice of these reply comments in its upcoming consideration of the J.R. Simplot QF contract.

Respectfully submitted this 15th day of April, 2004.

BARTON L. KLINE
Attorney for Idaho Power Company

## CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 15th day of April, 2004, I served a true and correct copy of the within and foregoing IDAHO POWER COMPANY'S REPLY COMMENTS upon the following named parties by the method indicated below, and addressed to the following:

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| Scott Woodbury<br>Deputy Attorney General<br>Idaho Public Utilities Commission<br>472 W. Washington Street<br>P.O. Box 83720<br>Boise, Idaho 83720-0074 | x<br>____<br>____<br>____ | Hand Delivered<br>U.S. Mail<br>Overnight Mail<br>FAX (208) 334-3762 |
| Richard Vinson, President<br>Renewable Energy of Idaho, Inc.<br>320 Mountview<br>Meridian, ID 83642 | ____<br>x<br>____<br>____ | Hand Delivered<br>U.S. Mail<br>Overnight Mail<br>FAX (208) 232-6109 |

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