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IDAHO PUBLIC
UTILITIES COMMISSION

Attorney for Idaho Power Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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)
THE J.R. SIMPLOT COMPANY)
_____)

CASE NO. IPC-E-04-7

REPLY COMMENTS

COMES NOW, Idaho Power Company ("Idaho Power" or "the Company"),
by and through its attorneys, and hereby replies to the comments of the Commission Staff
filed on April 16, 2004.

Background

The J.R. Simplot Company's Pocatello facility is a PURPA qualifying facility.
Idaho Power has continuously purchased the output of Simplot's Pocatello QF facility, on
both a firm and non-firm basis, for eighteen years. During that eighteen-year period, there
have been several iterations of the purchase agreement between Idaho Power and
Simplot. The Firm Energy Sales Agreement ("the Agreement") presented to the
Commission in this proceeding is one more in this series of contracts.

While the Simplot Pocatello facility has a nameplate rating greater than 10 MW, Simplot has advised the Company that under normal operating conditions, the generation from the Simplot Pocatello facility will average approximately 8 MW. In its comments, Staff notes that Simplot made the same representations in 1991 when the prior agreement was submitted, but in actual practice Simplot has generated more than 10 MW on many occasions. Idaho Power has no reason to believe that Simplot is not accurately representing that generation above 10 MW will not be the norm. In any event, Idaho Power believes that the Agreement reasonably prices the energy delivered by Simplot even if Simplot does generate above the 10 MW level.

The Purchase Rates in the Simplot Pocatello Agreement Are Reasonable

In many respects, the Firm Energy Sales Agreement between Idaho Power and the J.R. Simplot Company at issue in this case is very similar to the Firm Energy Sales Agreement the Commission recently approved for the Renewable Energies, Inc. PURPA project. Under both contracts, energy deliveries up to 10,000 kilowatt-hours per hour are priced at the Commission-approved avoided-cost rates for projects smaller than 10 MW. In both contracts, deliveries of energy in excess of that amount are priced lower, with the resulting average rate falling below the Commission-approved avoided-cost rate level.

Under the Agreement, if the Simplot Pocatello project generates more than 10,000 kilowatt-hours in any hour, the purchase price for the kilowatt-hours greater than 10,000 will be either 85% of the Mid-C spot market price, or the Commission-approved avoided-cost rate, whichever is *lower*. Therefore, if Simplot does generate more than

10,000 kilowatt hours in any hour, Idaho Power's customers will purchase the additional energy at below-market prices. In addition, because of the pricing structure in the Agreement, if Simplot generates excess energy, the average cost for all kilowatt-hours from the Simplot Pocatello facility will, in all likelihood, be lower than the current Commission-approved avoided cost rates.

Staff's comments accurately note that Idaho Power did not utilize the computer modeling methodology described in Order No. 26576 to determine the rates contained in the Agreement. Both the J.R. Simplot Company and Renewable Energy, Inc. approached Idaho Power at approximately the same time seeking contracts for QF projects under PURPA. For both the Renewable Energy, Inc. and Simplot Pocatello Agreements, the Company utilized the Commission-approved avoided cost rates as the starting point for contract negotiations, rather than utilizing the AURORA model to set rates.

The Company's concerns with its ability to utilize the AURORA model to compute long-term avoided cost rates for the Simplot Pocatello facility are identical to the concerns the Company described in its Reply Comments in the Renewable Energy, Inc. proceeding. Idaho Power requests that, in its deliberations in this case, the Commission take administrative notice of the Company's Reply Comments filed in the Renewable Energy proceeding.

Staff's Recommendations Are Unreasonable

In its comments, Staff recommends that the Commission reject both the Agreement and, presumably, the two short-term extensions of the prior Simplot agreement

that preceded it. Staff also states that if the Commission is inclined to approve the two extension agreements and the Agreement, the Commission should order Idaho Power to treat all three agreements as voluntary, non-PURPA contracts, thereby denying the Company full recovery of its costs in the PCA. Idaho Power believes that Staff's approach is unnecessary and unreasonable for the following reasons:

1. Short-Term Extensions. The prior Commission-approved contract between Idaho Power and Simplot expired before the parties could complete their negotiations that ultimately led to the Agreement that is the subject of this proceeding. To address this problem, Idaho Power and Simplot agreed to extend the prior contract while the two companies completed negotiation of this Agreement. Staff's comments correctly note that the purchase prices under the two extensions were lower than the currently-approved avoided-cost rates.

Staff argues in its comments that the extension contracts should be rejected because the Company did not follow the proper procedure. Staff argues that the correct procedure would have been for (1) Simplot to accept non-firm rates in the interim, or (2) the parties should have formally filed each of the two short-term extension agreements seeking a separate Commission order authorizing approval of the agreements for rate making purposes. Both Idaho Power and Simplot believed that they would agree on a new contract in a relatively short period of time and filing multiple formal applications for approval of short-term interim contracts would not have been an efficient use of the Commission's time and resources.

Because the purchase prices in the two extensions were lower than the current Commission-approved avoided costs, Idaho Power does not believe that the two

short-term extension agreements have disadvantaged customers in any way. The Company requests that the Commission reject Staff's proposal that the Company be ordered to treat the two extension agreements as non-PURPA agreements and allow the Company to recover its costs for these PURPA agreements.

2. Long-Term QF Agreement. Staff recommends that the Commission order Idaho Power to purchase energy from the Simplot Pocatello facility based on the rates, terms and conditions contained in the Agreement. However, Staff recommends that the Commission include a condition in the order requiring the Company to treat the Agreement as a voluntary contract and not as an involuntary PURPA contract until the Company resets the rate to be paid to Simplot using the AURORA model and revises the Agreement with Simplot. Section XXV of the Agreement provides as follows:

This Agreement shall become finally effective upon the Commission's approval of all terms and provisions hereof without change or condition and declaration that all payments to be made to Seller hereunder shall be allowed as prudently incurred expenses for ratemaking purposes.

Staff's proposal that the Commission *order* Idaho Power to enter into the Agreement as a *voluntary* contract would certainly be a "change" or "condition" placed on the Agreement by the Commission. Idaho Power does not believe that such a requirement is reasonable or necessary. As previously indicated, the rates contained in the Agreement are beneficial to customers.

Idaho Power requests that the Commission approve the Simplot Pocatello Agreement for the same reasons it approved the Renewable Energy, Inc. Agreement. In both instances, the agreements contain rates that will be less than the Commission's current approved avoided-cost rates.

Idaho Power acknowledges that it used the Commission-approved avoided-costs as the starting point for negotiating the Renewable Energy and Simplot agreements to avoid delay and because it was not confident that the AURORA model should be used to set purchase prices in a long-term fixed rate contract. To a great degree, Staff's comments simply gloss over the fact that there is a critical difference between (1) using AURORA to compare alternative resource streams, and (2) using AURORA to set long-term purchase prices in a *contract*. While Idaho Power still has some reservations, in the course of finalizing the 2004 IRP, Idaho Power has continued to refine the AURORA model and now commits to the Commission that it will use the AURORA model to set rates for all future contracts with QF's with a capacity larger than 10 MW.

DATED at Boise, Idaho, this 4th day of May, 2004.

A handwritten signature in black ink, appearing to read 'B L Kline', written over a horizontal line.

BARTON L. KLINE
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 4th day of May, 2004, I served a true and correct copy of the within and foregoing REPLY COMMENTS upon the following named parties by the method indicated below, and addressed to the following:

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