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IDAHO PUBLIC
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March 10, 2010

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
PO Box 83720
Boise, Idaho 83720-0074

Re: Case No. IPC-E-10-01

Dear Ms. Jewell:

Enclosed for filing in the captioned matter, please find the original and seven (7) copies of *Idaho Irrigation Pumpers Association, Inc.'s Comments* in the above matter.

Sincerely,

Conrad J. Aiken for

ERIC L. OLSEN

ELO:nj
Enclosures
cc: Service List

ORIGINAL

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2010 MAR 11 AM 10: 15
IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY TO ESTABLISH ITS BASE LEVEL FOR NET POWER SUPPLY EXPENSE FOR 2010	CASE NO. IPC-E-10-01

IDAHO IRRIGATION PUMPERS ASSOCIATION, INC.'S COMMENTS

IDAHO IRRIGATION PUMPERS ASSOCIATION, INC. ("IIPA"), by and through its attorneys, hereby respectfully submits the following comments with regard to Idaho Power Company's ("IPC") proposed establishment of a new base level of Net Power Supply Expense ("NPSE").

BACKGROUND

On January 13, 2010, in Order No. 30978, the Commission approved a Settlement Stipulation (the "Stipulation") which included a moratorium on rate case filings by IPC and certain other ratemaking provisions. The Stipulation included a provision which addresses setting the base level for NPSE. Paragraph 7.1 of the Stipulation reads as follows:

> 7.1. Setting the Base Level for Net Power Supply Expense. Prior to implementing the June 1, 2010, PCA and effective with the coincident PCA rate change, the Company will file with the Commission a request to change the base level for net power supply expenses to be used prospectively for both base rates and PCA

> calculations. The Parties will thereafter make a good-faith effort to reach agreement on the maximum change of the base level for net power supply expenses and submit any agreement to the Commission for approval.

The IIPA was a party to the Stipulation.

The IIPA recognizes that this case has been put on a fast tract, due to the terms of the Stipulation. However, being put on a fast track does not mean that Idaho Power is given a blank check to increase rates by any amount it chooses. The Stipulation specifically stated that the parties of this case would "make a good-faith effort to reach agreement on the maximum change of the base level of net power supply expenses and submit any agreement to the Commission" (emphasis added). Although there has been an effort to address some of the concerns of the parties, it is clear that no true agreement has been reached.

This case is important because the rate impact that is being proposed (with very minimal review) is huge. As filed, the rate increase to the Idaho Jurisdiction would be \$74.8 million per year. By contrast, after going through a full hearing in IPC's last general rate case (IPC-E-08-10), IPC was granted an increase in Idaho of only \$27.0 million. In this case, IPC is requesting an increase of approximately 3 times that of its last, fully litigated, rate case. Further, this increase is being requested in a time of severe financial conditions that are impacting all customer classes across IPC's whole service territory.

Finally, although this case looks a lot like a PCA filing, it is not. The PCA filings have been set up by the Commission to be processed very quickly under Modified Procedure. The PCA has a condensed timeframe because, in part, the PCA filing is little more than a pass-through of prudently incurred costs and projections of future costs that

IPC will incur to serve its customers. However, the prudence of those costs and the projections of future costs are based upon modeled results that are derived from the Company's base NPSE that typically gets extensively reviewed during a general rate case. This is not a PCA case, but effectively a rate case that is designed to increase rates in Idaho by $74.8 million per year. The normal use of Modified Procedure for a PCA cases looses all reasonableness when the foundation for those cases—the base NPSE—is also processed on Modified Procedure where there is no universal agreement to the values, procedures, and data being used.

ISSUES RAISED BY OTHERS

The IIPA is aware of concerns that have been raised by other parties to the base NPSE proposed by IPC. Although IIPA does not plan to take an active role with respect to each of these issues raised by others, we strongly support the proposition that these expenses should be excluded from the base NPSE, until such time as they are appropriately resolved (either by unanimous agreement of all of the parties or through Commission Order after a full hearing of the issues).

The source of these issues is testimony of the Oregon Commission Staff in a similar IPC base NPSE case in Oregon (UE 214). The Oregon Staff has raised the following issues with respect to Idaho Power's NPSE filing: (1) the coal costs for Bridger; (2) load growth and the size of system load; (3) Hoku contract load adjustment; (4) PURPA projects that are not online; (5) hydro adjustments in the power cost model; and (6) water rights rental with Shoshone-Bannock tribe. On a total Company basis, the Oregon Staff is proposing an adjustment/reduction of $15,584,261 associated with just the cost of coal at Bridger[1]. Although the Oregon Staff did not quantify the impact of their other five adjustments, it would not be unreasonable to assume that these adjustments could amount to more than an $10,000,000 reductions in the NPSE. Without unanimous agreement among the parties in this case, a similar adjustment of at least $26,000,000 should be made here, given the Modified Procedure posture of this case.

IIPA ISSUES

To a large extent, IPC bases it NPSE upon a large array of black box calculations in what is known as the AURORA model. Such black box calculations always raise a degree of concern. Simply put, if you know what data goes into a model, but you do not know how all of the data interacts within the model, there is always a level of suspicion with respect to the validity of the data that comes out of the model. When the model produces counterintuitive results or results that are not found in actual operations, then all doubt regarding the validity of the model is removed, and it is replaced by the simple knowledge that the model is inaccurate/bias.

IIPA's preliminary review in this case of the results of the modeled NPSE produces both counterintuitive results and results that do not conform to actual operation. It is inappropriate to pass off the results of a model that requests an approximate $75 million rate increase to customers as being "accurate enough" without giving the parties a chance to further test the validity of the assumptions and results in a true hearing setting.

Operation of Bennett Mountain

One example of the counterintuitive results of the output of the AURORA model run in Company Exhibit 1 is the operation of the Bennett Mountain facility. The

[1] See page 2 of the testimony of Oregon Staff witness Dougherty in Docket UE 214.

Company's model uses 81 different water year conditions in its modeling in order to produce an "average" result. The AURORA model did not have Bennett Mountain produce 1 Mw during each January, February, March, April, May, and June of any of those 81 years (486 months in total). Thus, AURORA strongly suggests that there is no reason, under any conditions, when Bennett Mountain should be operated during the first six months of any year. In preparation for filing these comments the IIPA looked at a very small window of actual generation data. Specifically, some of the generation for the first six months of 2008 was reviewed. Contrary to what AURORA predicted for each of 81 water years between 1928 and 2008, the actual output from Bennett Mountain for the first six months of 2008 was as follows:

January	14,961 Mwh
February	6,743 Mwh
March	2,252 Mwh
April	2,617 Mwh
May	-0-
June	2,395 Mwh

In other words, under actual conditions in 2008, Bennett Mountain produced over 28,000 Mwh during the first six months of the year, when AURORA predicted 0 Mwh. Even if 2008 was an extremely odd year, one would have expected the conditions that actually occurred should have been somewhat reflected in AURORA. However, 2008 was not that odd of a year. 2008 had less than average water, but there were 19 years of the 81 years modeled that had calendar year hydro generation worse than that listed for 2008[2]. We are not talking here about some minor discrepancies, but the fact that

[2] According to Company Exhibit 1, the following calendar years had less hydro generation than 2008: 1930, 1931, 1932, 1933, 1934, 1935, 1937, 1961, 1977, 1988, 1990, 1991, 1992, 1994, 2002, 2003, 2004, 2005, and 2007.

AURORA did not once (under 81 different conditions) for each of the first six months of the year pick up on an activity (generation) that was not out of the ordinary in 2008.

This is important because IPC's gas fired units would not be operating (or should not be operating) if they were not cheaper than the next required source of supply to meet the target load. In other words, if the gas units are dispatched, it should result in lower NPSE than if they are not operated to meet the load.

Operation of Danskin

The actual operation of Danskin compared to the AURORA results is no different. The total monthly modeled generation from Danskin for the first six months of all 81 years added together was:

January	38.5 Mwh
February	0.4 Mwh
March	45.9 Mwh
April	62.7 Mwh
May	-0-
June	109.9 Mwh
	257.4 Mwh

AURORA predicted a total of 257.4 Mwh of Danskin generation over 486 months (6 x 81 = 486). By contrast, Danskin actually generated 35,533 Mwh during the first six months of 2008.

Logic Errors

There are logic problems with AURORA as well, as can be seen from reviewing page 56 of Company Exhibit 1 which is the AURORA output for 1982. The AURORA output for June of that year has Valmy generating 93% of its June average (126,643 / 136,320 = 0.93) and hydro generation being flush at 141% of its June average (1,269,385 / 900,259 = 1.41). Basically, hydro generation is modeled to be above its average level by 369,126 Mwh or three times the entire monthly generation at Valmy. According to AURORA, there would be 509,146 Mwh of surplus sale at $21.48 per Mwh. However, in AURORA, Valmy is priced at and operated at $30.73 per Mwh—$9.55 per Mwh more than the price that Idaho Power is selling its excess power. In the model, Valmy is operated at a cost that is 50% more than the power is worth, even though the Company is selling off four times as much power as Valmy even generates. For June 1982, AURORA inappropriately raises the "modeled" cost of power by $1,209,441 (126,643 Mwh x $9.55 = $1,209,441). IIPA has not searched for other patent logic errors in the AURORA model like this one. However, just because this error does not appear in many monthly statistics, it does not mean that the error is not occurring on an hourly, daily or weekly basis in the model due to the likelihood of its being masked by monthly totals.

DSM Programs

A less quantifiable concern is the treatment within the AURORA model of the recent advances that IPC and the customers have made with respect to demand curtailment DSM programs. Compared to just a couple of years ago, great strides have been made with respect to the Residential Cool Keeper program, the Irrigation Peak Rewards program, and the Commercial Demand Response program. These programs are designed to significantly reduce the Company's peak load and thus reduce the use of the highest cost resources on the system. It appears that AURORA is unable to model these improvements in cost reduction. In a recent data response in Case No. IPC-E-09-03 (Langley Gulch), the following response was received from the Company regarding an IIPA data request:

Request No. 8: Exhibit 47 in Case No. IPC-E-08-10 lists the average (and under separate annual water conditions), the monthly cost and generation by various categories of supply for the Company's overall power costs. Please answer the following:

a. What level of irrigation load management was specifically assumed in the Normalized 2008 data? (Emphasis in original)

Response to Request No. 8:

a. The Company's normalized power supply expenses for ratemaking purposes are modeled within AURORA using monthly average loads in megawatts and hourly load shapes within months based on historical information that includes test year impacts from past programs. This methodology used for ratemaking is different than the methodology used for the Integrated Resource Plan. The IRP identifies future peak hour deficiencies based upon forecasts of peak hour loads, while the test year methodology does not. The IRP is used for planning purposes, while the test year is not. (Emphasis added)

By not addressing the new load patterns and system cost reductions that are associated with these new and expanding programs, AURORA is biasing the model results toward higher costs.

Wholesale Transactions

The wholesale market has been known to operate in a manner different than anything modeled in AURORA. During the last couple of years, there have been times when Idaho Power has purchased power, and the Seller paid Idaho Power to take the power—the purchase was made at a negative price. By the same token, there were times when Idaho Power sold power and had to pay someone to take it. These are rare, but real events. AURORA does not have the capacity, or at least the input data, that would model such transactions on even a rare basis.

RECOMMENDATIONS

The Commission cannot expect the AURORA model to be perfect. However, it should expect the AURORA model to take into account general conditions that are known, measurable and occur on IPC's system. It does not satisfactorily do that. Should the Commission allow the Company's full requested $74.8 million increase in base rates to go into effect and just allow the true-up in the PCA to address the shortcomings of the AURORA model? The ratepayers would say—NO. Why should the ratepayers pay too much for "uncontested" model errors and then be refunded only 95% of the difference through the PCA?

The IIPA proposes that since AURORA cannot adequately model many of the lower cost aspects of Idaho Power's base NPSE, that the base NPSE should be set lower than that proposed by the model and then let the Company pick up 95% of any shortfall in the PCA. Given the minimum of a $26 million challenge by the Oregon Staff to the Company's proposed base NPSE, and the obvious discrepancies and counter-intuitive AURORA model results, IIPA recommends that the Commission authorize an increase no greater than $35 million and hold any further increases until after there has been a full evidentiary review of the many issues that surround Idaho Power's requested base NPSE.

In conclusion, IIPA has concerns about the prudency of Idaho Power's modeled base NPSE that have not been resolved in the compressed time frame of this case. The IIPA requests pursuant to Rule of Procedure 203 that the Commission order that a hearing, workshop, or some other forum be convened to allow the IIPA and other interested parties more time to review the prudency of IPC's modeled power costs. In making this request, the IIPA is not seeking to delay or postpone implementation of a level of the NPSE that it believes may be prudent ($35 million). Rather, the IIPA wants to continue to have a forum to review the power costs included in the AURORA model.

DATED this 11th day of March, 2010.

RACINE, OLSON, NYE, BUDGE &
BAILEY, CHARTERED

By Conrad Aiken for
ERIC L. OLSEN, Attorney for
Idaho Irrigation Pumpers
Association, Inc.

CERTIFICATE OF MAILING

I HEREBY CERTIFY that on this 11th day of March, 2010, I served a true, correct and complete copy of the foregoing document, to each of the following, via the method so indicated:

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