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May 30, 2012

Jean J. Jewell, Secretary  
Idaho Public Utilities Commission  
P.O. Box 83720  
Boise, Idaho 83720-0084

Re: Case No. ~~IPC-3-2012-14~~ — *IPC-E-12-14*

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2012 MAY 30 PM 12:21  
IDAHO PUBLIC UTILITIES COMMISSION

Dear Mrs. Jewell:

Enclosed for filing in the captioned case please find the original and seven copies of *Idaho Irrigation Pumpers Association, Inc.'s Protest/Comments*. Thank you for your assistance.

Sincerely,

ERIC L. OLSEN

ELO:tjl

Enclosures

cc: Service List (Via Email)

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2012 MAY 30 PM 12: 22

IDAHO PUBLIC  
UTILITIES COMMISSION

Attorneys for Idaho Irrigation Pumpers Association, Inc.

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE APPLICATION )  
OF IDAHO POWER COMPANY FOR )  
AUTHORITY TO INCREASE ITS RATES )  
AND CHARGES FOR ELECTRIC SERVICE )  
DUE TO THE INCLUSION OF THE )  
LANGLEY GULCH POWER PLANT )  
INVESTMENT IN RATE BASE. )

**CASE NO. IPC-E-12-14**

**IDAHO IRRIGATION PUMPERS ASSOCIATION, INC.'S  
PROTEST/COMMENTS**

IDAHO IRRIGATION PUMPERS ASSOCIATION, INC. ("IIPA,") by and through counsel, hereby respectfully submits, pursuant to Commission Rule 203, the following protest/comments with regard to Idaho Power Company's ("IPC") request for a 7.18% increase in its base revenue in its Idaho jurisdiction due to the inclusion of the Langley Gulch investment into rate base.

**INTRODUCTION**

IIPA requests that the Commission disallow the 7.18% increase at this time because IPC's data and methodology used to justify the increase are based upon isolated and outdated circumstances of how IPC is currently running the system and how it will operate the system once Langley Gulch is in operation. IIPA respectfully requests a hearing on the proposed increase that will include a full general rate case that will review

all of the new circumstances in which IPC finds itself with its existing generation resources, and how it will operate after Langley Gulch is placed in service.

Alternatively, IIPA respectfully requests that no more than half of the Company's proposed increase (3.59%) be authorized at this time and then have the Company file a general rate case that would fully review the circumstances in which IPC finds itself with its existing generation resources, and how it will operate after Langley Gulch is placed in service. IIPA does not question that Langley Gulch will be an important and integral part of the Company's generation mix, but respectfully requests a hearing that demonstrates the new circumstances and the manner in which Langley Gulch benefits the system.

### **BACKGROUND**

IPC's requested 7.18% increase relates solely to the addition of Langley Gulch to rate base and operation and maintenance costs associated with the facility. Unlike a normal general rate case, this case is simply a single item rate case. As Company witness Tatum expresses on page 3 of his direct testimony:

The Company is asking the Commission to review the investments the Company has made to develop and integrate the Langley Gulch power plant "Langley" or "Project") into the Company's operation system and approve an adjustment to the Company's rates to reflect those investments and certain related expenses. This investment includes generation and transmission investment, as well as labor and non-labor operations and maintenance ("O&M") expenses."

IPC calculated that there was a \$7.7 million net reduction in power supply expense for the Idaho Jurisdiction, based upon "reevaluating the Company's currently approved base level net power supply expense, which was based on a 2010 test period." (Tatum testimony at page 10) The Commission typically determines the normal or expected annual power supply costs for IPC in a general rate case and incorporates

recovery of those costs in base rates. Actual power supply costs that vary from the normal amount included in rates are captured each year through the Company's (PCA). Under the PCA mechanism, in a poor water year the Commission requires the Company's shareholders pay 5% of the costs that exceed power costs recovered through base rates to provide incentive to the Company to make only prudent power cost decisions. Conversely, in a good water year, the Commission requires Idaho Power to credit its ratepayers with 95% of the below normal cost savings. Thus, miscalculations one way or the other in the base level net power costs will result in the utility or the ratepayers losing the ability to recover costs or savings to which they would otherwise be entitled.

According to the Company, currently authorized base level net power supply expenses are based on a 2010 test year in the Case No. IPC-E-10-01. The result of the addition of Langley Gulch (in isolation) to the Company's net power supply model (based upon 2010 inputs), shows very little change in all generation resources, but a decline during each month of purchase power levels as well as an increase each month in sales for resale.<sup>1</sup>

## DISCUSSION

A. The Commission should hold a full general rate case before allowing IPC to collect the Langley Gulch investment.

IPC's requested 7.18% increase in a single item rate case is unprecedented. Further, asking that such an increase be processed under Modified Procedure is also unprecedented. IIPA does not contend Langley Gulch should not be allowed into rate base. Rather, the addition of this type of a generation unit, in combination with other

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<sup>1</sup> The Company's Response to IIPA Request 2 lists the results of the Aurora model run from Case No. IPC-E-10-01, which can be compared to the Company's Response to ICIP Request 2 which lists the Aurora Model run from Case No. IPC-E-10-01, as only modified by the addition of Langley Gulch.

changes that have occurred during the last two years, warrants a complete review of all of IPC's costs. It is inappropriate, as IPC contends, to simply include this unit in rates and compare its impact to conditions that existed two years ago.

IIPA submits that a review of one cost item in isolation is bound to increase rates more than a number of items taken together, as there are always some circumstances that require rates to go up, while offsetting circumstances will lower rates. To focus only on one very large increase and not look at other possible costs impacts will only bias rates upwards.

The Commission has already recognized this concern in Order 30892 granting the Langley Gulch Certificate of Public Convenience and Necessity ("CPCN"). At page 31 of that Order, the Commission stated:

When questioned at hearing as to the rate impact if Langley Gulch was approved, Mr. Gale, the Company's policy witness responded as follows:

...if you just simply lay that rate base and depreciation and such onto our current rates, you get a number close to ... six or seven percent. If you play it forward into 2012 and escalate the revenue and evaluate it against other alternatives, it's diminished, I think, closer to three or four percent, and then in comparison to alternatives, maybe nothing at all, because you can't just view the rate impact in isolation. There's going to be a set of costs under which you're operating at that point in time.  
Gale, Tr. P. 220 (Emphasis added.)

Mr. Gale rightfully observed during the CPCN hearing that a 6-7% increase would be needed if Langley Gulch costs (rate base, depreciation, O&M) were simply placed upon existing rates. However, Mr. Gale contended that the rate increase would be closer to half that (or less), if 2012 costs, circumstances and alternatives were incorporated. It is inappropriate to accept a 7.18% increase in isolation, when the Company witness in the CPCN hearing for Langley Gulch suggested that the rate increase would be much less if

more recent information were taken into account. That necessary level of analysis just cannot take place under Modified Procedure.

- B. The Commission should hold an evidentiary hearing regarding the used and usefulness of the Company's new resource mix before allowing the IPC to begin collecting rates that include the cost of Langley Gulch.

IPC's use of only a 2010 Aurora model run with the addition of Langley Gulch gives a very inaccurate view of how Langley Gulch and the rest of its resource mix will operate now, and in the future. The conditions that exist today are completely different than they were in 2010. Many of those conditions are expected to continue in the future or only slowly change. Of course, Langley Gulch was introduced under the conditions and circumstances that existed around 2008—2009. However, its impact and operation may be completely different than originally expected when contemplated. The reduction in natural gas prices has impacted Langley Gulch's operating advantages. According to IPC's Aurora model, using 2012 natural gas cost data, Langley Gulch is now cheaper to operate than any of Idaho Power's coal plants (Bridger, Valmy, and Boardman). Because natural gas prices are so low, purchased power and sales-for-resale prices have dropped. Unrelated to any of these changes, the IPC's loads are lower than in 2010 and there is far more PURPA/wind power on the system.

In order to show the absurdity of not reviewing the impact of these changes to the resource mix, the following table has been prepared:

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**Valmy MWH  
Aurora Output**

	Company Base Case <u>2010</u>	Company 2010 Case Plus <u>Langley Gulch</u>	Company 2010 Case Plus Langley Gulch <u>Today's Gas Prices</u>
January	154,213	154,747	0
February	141,411	140,486	0
March	153,151	152,490	0
April	94,183	93,771	0
May	74,097	73,460	0
June	136,829	136,817	0
July	168,983	169,068	28,453
August	171,397	170,863	23,372
September	163,030	161,073	3,356
October	171,190	169,592	0
November	172,025	171,282	0
December	<u>175,839</u>	<u>175,284</u>	<u>0</u>
Annual	1,776,348	1,768,934	55,181

As can be seen from the above table, the operation of Valmy was basically that of a base load plant in the 2010 Aurora model run.<sup>2</sup> There was basically no change in the operation of Valmy when the Company used the 2010 Aurora model run and only superimposed Langley Gulch as a new resource.<sup>3</sup> However, taking that same 2010 Aurora model run with Langley Gulch superimposed, but changing the price of natural gas to today's prices<sup>4</sup>, results in Valmy only operating at 3% of the level previously calculated.

The small amount of Valmy production that is listed for the three summer months does not give credence to the future usefulness of this generation resource to Idaho Power. The Aurora model run that produced these results, simply took into account the

<sup>2</sup> Data taken from the Company's Response to IIPA Request 2.

<sup>3</sup> Data taken from the Company's Response to ICIP Request 2.

<sup>4</sup> Data taken from the Company's Response to IIPA Request 13 Attachment 1.

change in natural gas prices since 2010. Other changes since 2010 that are well recognized, but not addressed in this model run include: (1) a decrease in customer load and (2) a large increase in PURPA/wind generation. Offsetting this would be the termination of the Montana PPL contract.

This phenomenon of not having Valmy used and useful is not simply a theoretical construct for when Langley Gulch comes on line. Today, long before Langley Gulch begins to operate, Valmy is not, and has not been, in use anywhere near the degree suggested by the Company's 2010 Aurora model run (without Langley Gulch). In fact, Idaho Power has not taken power from Valmy since Christmas day 2011. Prior to that, Valmy had been running at approximately 50% of the levels shown in the 2010 Aurora model run (without Langley Gulch) as demonstrated below:

	Valmy Modeled (Base Case) <u>2010</u>	Actual Valmy <u>Operation</u>	
April	94,183	0	Apr-11
May	74,097	0	May-11
June	136,829	300	Jun-11
July	168,983	96,196	Jul-11
August	171,397	90,518	Aug-11
September	163,030	89,705	Sep-11
October	171,190	34,737	Oct-11
November	172,025	97,331	Nov-11
December	175,839	75,147	Dec-11
January	154,213	0	Jan-12
February	141,411	0	Feb-12
March	<u>153,151</u>	<u>0</u>	Mar-12
Annual	1,776,348	483,934	

The question that must be asked and answered: Is Valmy used and useful? IIPA recognizes that this is not a simple question. There are many aspects to determining if a

facility is used and useful and the IIPA does not contend that the above tables contain the complete answer to that question. However, the above tables raise sufficient concern that a full investigation should be completed. Langley Gulch should not result in a 7.18% rate increase without a review of its impact on the system under today's conditions and the impact Langley Gulch has on IPC's entire resource stack.

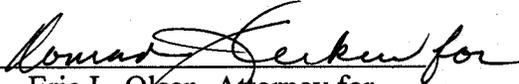
### CONCLUSION

IIPA protests Commission approval of IPC's request for a 7.18% increase in base rates in the Idaho jurisdiction. IIPA respectfully requests that the Commission not process this case under Modified Procedure. A rate case of this magnitude should be processed as a full general rate case, where all of IPC's costs are reviewed, and not just the impact on Valmy in isolation—based upon a two-year old Aurora model. When the CPCN was issued, IPC witness (as well as the Commission) recognized that the resulting rate impact was not 7% as it would appear if Langley Gulch were reviewed in isolation, but “closer to three or four percent” if all 2012 costs were taken into account, and “maybe nothing at all”. A general rate case would take all cost changes into account and produce a fair rate change for ratepayers.

In the alternative, IIPA respectfully requests the Commission issue an order authorizing not more than half of the requested increase (3.59%) at this time, and then require IPC to file a general rate case. In this manner, IPC will get an increase that is in the mid-range of what was predicted (3--4%) for when the unit comes on line, and the Commission will get a chance to take a much deeper look into the Company's 2012 costs than what is possible under Modified Procedure.

Dated this 30<sup>th</sup> day of May, 2012.

RACINE OLSON NYE BUDGE &  
BAILEY, CHARTERED

By:   
Eric L. Olsen, Attorney for  
Idaho Irrigation Pumpers  
Association, Inc.

**CERTIFICATE OF MAILING**

I HEREBY CERTIFY that on this 30<sup>th</sup> day of May, 2012, 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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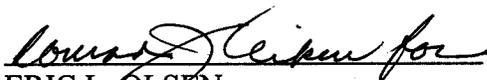
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