

**UNITED STATES OF AMERICA
U.S. DEPARTMENT OF ENERGY
BEFORE THE
BONNEVILLE POWER ADMINISTRATION**

PROPOSED METHODOLOGY FOR)	
DETERMINING THE AVERAGE SYSTEM)	BPA DOCKET NO. ASCM-08
COST OF RESOURCES FOR ELECTRIC)	
UTILITIES PARTICIPATING IN THE)	
RESIDENTIAL EXCHANGE PROGRAM)	
ESTABLISHED BY SECTION 5(c) OF THE)	
PACIFIC NORTHWEST ELECTRIC POWER)	
PLANNING AND CONSERVATION ACT)	

**COMMENTS OF THE
IDAHO PUBLIC UTILITIES COMMISSION**

On February 7, 2008, the Bonneville Power Administration (BPA) published a notice in the Federal Register seeking comment regarding proposed changes to its Average System Cost Methodology (ASCM) authorized by Section 5(c) of the Pacific Northwest Electric Power Planning and Conservation Act (Northwest Power Act). 73 Fed.Reg. 7270 (Feb. 7, 2008). On March 27, 2008, the Idaho Public Utilities Commission (Idaho PUC) had its statutory consultation with BPA regarding the proposed changes in the ASCM. 16 U.S.C. § 839c(c)(7).

The Idaho PUC appreciates the opportunity to provide comments to BPA on its proposed methodology for determining the ASC for electric utilities participating in the residential exchange program established by Section 5(c) of the Northwest Power Act. This matter is of great importance to all electric utility customers in Idaho, especially the customers of the investor-owned utilities (IOUs) subject to the jurisdiction of the Idaho PUC.

SUMMARY

The Idaho PUC finds the proposed methodology to be a significant improvement over the 1984 ASC methodology. We urge BPA to adopt its proposed ASCM changes including: the use of Federal Energy Regulatory Commission (FERC) Form 1 information; the adjustment of ASCs to reflect major new resource additions; and the inclusion of transmission costs, federal income taxes, return on equity, and regulatory assets and liabilities (such as power cost adjustments, intervenor funding, AFUDC, and sales of emission allowances).

At the outset, we recognize that the proposed changes are significant and positive improvements to the ASC methodology. The changes indicate a greater appreciation of the actual operational and capital costs that utilities face, and the factors that we, and the other regulatory commissions, must address when establishing IOU rates for electric services. These changes will enhance the ability of BPA to meet the objective of a broader and more equitable sharing of the benefits of the Columbia River Hydroelectric system with the IOU residential and small farm customers within the region.

USE OF FERC FORM 1

As BPA well knows, the 1984 ASC “jurisdictional” methodology was unduly complex and became an administrative burden for all parties. The Idaho PUC supports BPA’s proposal to simplify this process and primarily rely on information commonly available in the annual FERC Form 1 filings. All of the regional IOUs already are required to collect and file FERC Form 1 information every year. The procedures and methodology for collecting and assembling this information are well established and relatively consistent throughout the

industry.¹ This change will reduce the administrative burden of and add transparency to the ASCM process.

Another advantage of using FERC Form 1 data is that it is updated annually, and the reporting period is the same for all reporting utilities. The 1984 methodology relied upon data from state commission rate cases, which may not have been that recent and do not occur on a regular basis. For those IOUs with service areas in multiple states, each jurisdiction could have used a different test year. The consistency and timeliness of the FERC Form 1 data should reduce disputes about the information and also simplify the resolution of any disputes that do arise.

The Form 1 data are publicly available and relatively easy to access, which should enhance the opportunity for all interested parties to review the information reported by the IOUs. This transparency should benefit the public review process by making it easier and more efficient for parties to evaluate the data in a shorter time frame. The Form 1 is “certified” by the submitting utility, and a certified public accountant must attest that the reported data conform to the FERC Uniform System of Accounts. FERC Form 1 Instructions § 3 at p. i-ii; 18 C.F.R. Part 101. FERC may assess penalties for violations of its regulations if data are not submitted. *Id.* at p. vii; 16 U.S.C. § 825a(a).

The proposed methodology for adjusting the Form 1 data for those utilities with service areas outside of the region appears to be a reasonable compromise between complexity and administrative burden and should be sufficiently accurate to minimize any concerns regarding inequitable treatment.

¹ We also note that FERC has issued a Notice of Proposed Rulemaking to revise the Form 1. *Revisions to Forms, Statements and Reporting Requirements for Electric Utilities and Licensees*, Docket No. RM08-5-000, 122 F.E.R.C. ¶ 61,036 (Jan. 18, 2008).

As identified in BPA's Federal Register Notice, the data available from the Form 1 will be historical, but the ASC developed through the methodology will apply to future BPA rate periods. Because the ASCs for all utilities will be determined from data from the same period and the same methodology will be used to adjust for temporal consistency, the Idaho PUC finds this adjustment to be a reasonable compromise – as long as the FERC Form 1 data from the most recently available year are used, as exemplified below.

We understand that BPA's current proposal is that data from the FERC Form 1 covering the 2006 calendar year will be used in the 2007 (WP-07) Supplemental Rate case and will apply going forward for the years 2008 and 2009. The FERC Form 1 data covering the 2007 period was to be filed by April 15, 2008, and therefore should be available now. While we recognize that the schedule in this proceeding is expedited for the WP-07 case, we believe that using the more recent 2007 data is justified. The electrical industry in the Pacific Northwest is currently experiencing significant change, and conditions in 2009 are likely to be significantly different from those that existed in 2006. While it may be possible to make adjustments to reflect some of the expected changes, the ability to project into the future and reliably predict what will happen diminishes exponentially as the time period is extended. Using 2007 data as the base should result in significantly more accurate results than starting off with data that is already two years old.

Additionally, each adjustment made to historical data increases the probability of disputes, problems, and delays. Adjusting 2006 data to reflect 2007 changes, when actual 2007 data are available, will increase this risk unnecessarily. Expending the extra effort associated with using the 2007 data may prevent the significantly greater effort that would be required to resolve these disputes.

NEW MAJOR RESOURCE ADJUSTMENTS

Major resource additions and power purchases have significant impacts upon a utility's ASC, especially for smaller IOUs such as Avista and Idaho Power. Delaying the recognition of such major costs until they appear in the subsequent FERC Form 1 data will result in significant discrepancies. Consequently, the Idaho PUC supports BPA's proposal to allow for changes to a utility's ASC when significant new resources become used and useful. 73 Fed.Reg. at 7274, § II.C.(1).

For example, Idaho Power has recently completed the construction of its new gas-fired Danskin Combustion Turbine 1 (previously known as Evander Andrews) generation facility. The company expects the facility to come online by June 1, 2008, after the 2007 FERC Form 1 data submittal but before this summer's peak energy consumption period. The Idaho PUC granted Idaho Power a Certificate of Public Convenience and Necessity for this facility in 2006. IPUC Order No. 30201. The Company has an application currently pending before the Idaho PUC to recover its costs for the gas-fired plant effective June 1, 2008. The total amount of the investment for this plant and the related transmission and interconnection facilities is asserted to be more than \$65 million.

This is clearly a known addition to Idaho Power's resource costs that will be used and useful prior to the completion of this ASCM proceeding. We believe it is important and appropriate that the ASCM include provisions to update Idaho Power's (or any other utility's) Form 1 data to include this type of new resource. We interpret the proposed methodology as providing such an "update" procedure and would oppose any decision or proposal that would preclude such an update.

The details for exactly what will be considered a major new resource, the information that will need to be filed to include such additions, and the process that will be used in evaluating and integrating such investments into a company's ASC have not yet been clearly defined. If these parameters are set too narrowly, customers of utilities that make these investments will be disadvantaged. If set too broadly, the administrative burden of reviewing and adjusting for multiple small investments will become excessive. Recognizing that the electric utility industry is undergoing changes in the selection of new resource additions, *e.g.*, renewable resources, the Idaho PUC encourages BPA to maintain some flexibility for including new major resource additions in ASC calculations.

TRANSMISSION COSTS

The proposed inclusion of transmission related expenses is also an appropriate and necessary change to the ASC. 73 Fed.Reg. at p. 7275-76. The cost of transmitting energy from the generating facility to the utility's load centers is appropriate to include in the ASCM. Decisions on the siting of resource facilities involve comparisons of the total costs of the different locations, including transporting generation resources such as the fuel and cooling water to the site, as well as the transmission of the generated electricity from the site. Many utilities have located generating facilities outside of the Pacific Northwest and far from their load centers to be closer to the source of coal. These mine-mouth facilities were located outside the region because the companies projected the cost of transporting the coal would exceed the cost of transmission facilities to bring the generated electricity to the load. Failure to include the cost of such transmission facilities would not conform to industry practices and is detrimental to residential and small farm customers. Transmission costs should be recognized as part of the ASCM.

This will become even more important as the region's utilities add more renewable energy resources to their generation portfolios. Renewable generating facilities typically need to be located where the resource is located, without regard to where the load is located. Whether it is wind, geothermal, solar, or hydro, our experience is that these types of facilities are not located near load centers. In fact, renewable wind resources are often not located near existing transmission facilities. The costs of the transmission facilities required to get the electricity to load centers are an important component of the utility's ASC.

All of the coal-fired generation used in Idaho is transported to Idaho load centers from distant locations. For example, Avista customers in northern Idaho and eastern Washington are served by electricity generated at the Colstrip mine-mouth facility in central Montana. This generating facility is over 600 miles from Avista's load center. In addition, Idaho Power acquired its coal generating resources by partnering with neighboring utilities. Idaho Power customers receive part of the generation from the Boardman coal facility near Boardman, Oregon, which is nearly 270 miles from the Treasure Valley load center (TVLC); from the Valmy coal plant near Valmy, Nevada, which is almost 300 miles from the TVLC; and from the Jim Bridger mine-mouth coal facilities near Rock Springs, Wyoming, which are almost 500 miles from the TVLC. While the Boardman and Valmy facilities are not mine-mouth facilities, Idaho Power is a co-owner in those projects, as well as the Bridger facility.

Finally, PacifiCorp's Idaho customers are served from system resources, the closest of which are the Jim Bridger generation facility near Rock Springs, Wyoming, and the Hunter facility in Utah. Both of these generation complexes are located near coal mines, and both are more than 200 miles from the center of PacifiCorp's Idaho load center.

At the time each of these resources was acquired by the respective IOUs, this Commission found the cost of the Company's participation in the project, including the costs of the related transmission facilities, to be a reasonable and prudent expenditure. The costs of the transmission facilities required to move the electricity to the companies' load centers were part of the overall project evaluated by the Idaho PUC. These transmission costs are included in the rates customers pay, and these transmission costs need to be fully included in the ASCM.

RETURN ON EQUITY

Including the cost of the return on equity (ROE) in the ASC for IOUs is one of the proposed changes we strongly support. The current exclusion of this cost in the 1984 ASC methodology fails to recognize the very real impact that an IOU's capital structure has upon its operating and capital costs. As BPA recognizes in its Notice, the cost of common equity in an IOU's capital structure results in a reduction of the company's cost of debt. 73 Fed.Reg. at p. 7277. The financial markets recognize that one function of the ROE is to spread risk to shareholders, and the absence of ROE would result in a "significant" increase in an IOU's cost of debt. The 1984 methodology took advantage of the lower cost of debt in a typical IOU capital structure by failing to include the cost of that equity. *Id.* The proposed change to include ROE in the new ASCM corrects this deficiency in the 1984 methodology.

As indicated in the Notice, the original concerns that led to excluding ROE costs either no longer exist or are adequately addressed by other regulatory bodies. *Id.* The Idaho Commission supports the proposal to include ROE costs in the new ASCM.

FEDERAL INCOME TAXES

The Idaho PUC also supports the proposed inclusion of federal income taxes in the ASCM. 73 Fed.Reg. at p. 7277. Income taxes are a real, significant, and distinct cost that is

incurred by IOUs, and income taxes are widely recognized as one of the costs of conducting business. The failure to include tax costs would deny the residential and small farm customers of IOUs their benefits under the Act.

In addition to the inclusion of federal income taxes in the ASC, BPA should recognize the impact of federal income taxes on ROE. State regulatory commissions typically gross-up the IOU's income deficiency for taxes to arrive at the revenue requirement on an "after tax" basis that reflects the ROE established in a rate case. This gross-up calculation neutralizes the impact of taxes on rate of return. Because BPA is proposing to include ROE costs as a component in the ASCM, BPA should recognize the interplay between federal income taxes and ROE.

OTHER RECOMMENDED CHANGES TO THE ASCM

In addition to those changes proposed in the Notice, the Idaho PUC recommends that BPA adopt two other adjustments. First, the Idaho PUC believes that state income and electric production taxes should be included in utilities' ASCs. In addition to IOUs paying state income taxes, Idaho non-profit electric cooperatives are taxed on their annual gross electrical earnings. *Idaho Code* § 63-3502. The State of Idaho also assesses a one-half mil per kilowatt-hour "license tax" on hydropower generation. This applies to all corporations, associations, or other organizations. *Idaho Code* § 63-2701.

Second, the Idaho PUC also believes that the new ASCM should include fees assessed by the state regulatory commissions. Each calendar year, the Idaho PUC collects a special regulatory fee from IOUs operating in Idaho. Pursuant to *Idaho Code* § 61-1001, this regulatory fee defrays the expenses of the Idaho PUC "in supervising and regulating the public

utilities” subject to our jurisdiction. State taxes and regulatory fees represent actual costs to Idaho utilities and should be properly allocated in the ASCM.

THE DEEMER MECHANISM

In its Notice, BPA stated that the ASC is used to implement the Residential Exchange Program (REP) pursuant to Section 5(c) of the Northwest Power Act, 16 U.S.C. § 839c(c). BPA explained that when the PF exchange rate is lower than a participating utility’s ASC,

BPA pays the net cost to that utility. However, when the PF Exchange rate is higher than the ASC, i.e., when the net cost of the exchange is negative, BPA has previously provided the utility a unilateral right to “deem” its ASC equal to the PF rate, so that no payment flows from the utility to BPA.

73 Fed.Reg. at 7271, § I.A. In the accompanying footnote, the Notice states that “BPA has historically kept an account of such unpaid ‘deemer’ amounts, which must be paid before the utility can receive positive REP benefits.” *Id.* at n.4.

The Idaho PUC notes that the existence of the deemer balances and the amount of such balances, if any, is a disputed issue in the WP-07 Supplemental rate case. WP-07-E-BPA-44 at p. 208; WP-02-E-BPA-53 at p. 19. Unless this proposed ASCM addresses the deemer mechanism on a prospective basis, the legal and financial disputes that hang like a dark thundercloud over the REP in the past will continue to do so into the future. Even taking into consideration the proposed changes to the ASCM, the possibility exists that one or more IOUs’ ASCs will be lower than the PF Exchange rate in future years. Moreover, there is no certainty that the current relationship between the IOUs’ ASCs and BPA’s PF Exchange rate will remain the same over time. In 2008, the electric utility industry still faces a great deal of uncertainty regarding resources, for example: carbon-based emissions, the integration of renewable resources, the construction of major transmission lines, new technologies for generation and customer resources, and environmental mitigation. How the resolution of these uncertainties will

affect the IOUs' costs/ASCs, BPA's Exchange rate, and the relationship between the two is unknown at this time.

To provide fairness and clarity to the REP on a going forward basis, the Idaho PUC believes that BPA should change the deemer mechanism in the following manner: when an IOU's ASC is lower than the BPA PF Exchange rate, nothing should occur beyond the fact that the IOU will not be eligible for current REP benefits or as the Notice states: "no payment flows from the utility to BPA." 73 Fed.Reg. at 7271 (quoted above). Requiring an IOU to pay the difference (i.e., when the utility's ASC is lower than the PF Exchange rate) before receiving future REP benefits goes beyond the concept of "wholesale rate parity" between preference customers and IOU customers embodied in the Northwest Power Act. *Id.* In fact, this payment by an IOU may constitute a subsidy of either the other IOUs' REP benefits or the public utilities' rates or both.

To state that the reduction of future REP benefits through the deemer mechanism is not the same as a "cash obligation" is disingenuous. If left unchecked, the alleged growth in the deemer balances by the accumulation of applied interest alone, the inability of the parties to resolve the deemer disputes, and BPA's position that the deemers must be paid before utilities can receive positive REP payments, will result in hundreds of thousands of Idaho residential and small farm customers being denied any REP benefits for the next 20 years. Adopting a policy of suspending an IOU's participation in the REP (without accruing interest) when its ASC is lower than the PF Exchange rate, but to resume receiving REP benefits when its ASC is higher than the PF Exchange rate, is a solution that is easy to understand and implement, harms no other party, and is consistent with the Northwest Power Act.

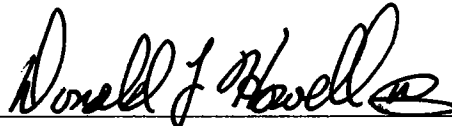
INTEGRATION WITH WP-07 CASE

Finally, the Idaho PUC supports the use of the results of this new ASCM in the WP-07 Supplemental Rate Case. The proposed changes to the ASC are appropriate, improve the accuracy of the ASC results, and are entirely consistent with and further promote the objectives of the Northwest Power Act. The revised ASCM that results from this process is the methodology that should be used in determining the REP credits to be provided during the rate period covered by the WP-07 rate case.

In summary, the Idaho PUC supports the Administrator's proposed changes to the ASCM and recommends that the Administrator also include state income/production taxes and regulatory fees in the new methodology. The Idaho PUC also recommends that the Administrator adopt the solution we propose for resolving the deemer issue.

Respectfully submitted this 2d day of May 2008.

FOR THE IDAHO PUBLIC UTILITIES COMMISSION



Donald L. Howell, II
Deputy Attorney General

PO Box 83720
472 W. Washington Street (83702-5918)
Boise, ID 83720-0074
Idaho State Bar No. 3366
Telephone No. (208) 334-0312
E-mail: don.howell@puc.idaho.gov

N:BPA_ASCM-08_wh_dh_Comments