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**LISA D. NORDSTROM**
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January 28, 2011

**VIA HAND DELIVERY**

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
P.O. Box 83720
Boise, Idaho 83720-0074

Re: Case No. GNR-E-10-03
*IN THE MATTER OF THE COMMISSION'S INQUIRY INTO LOAD GROWTH ADJUSTMENTS THAT ARE PART OF POWER COST ADJUSTMENT MECHANISMS*

Dear Ms. Jewell:

Enclosed for filing please find an original and seven (7) copies of Idaho Power Company's Reply Comments in the above matter.

Very truly yours,

Lisa D. Nordstrom

Lisa D. Nordstrom

LDN:csb
Enclosures

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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| IN THE MATTER OF THE COMMISSION'S INQUIRY INTO LOAD GROWTH ADJUSTMENTS THAT ARE PART OF POWER COST ADJUSTMENT MECHANISMS. | CASE NO. GNR-E-10-03<br><br>IDAHO POWER COMPANY'S REPLY COMMENTS |

COMES NOW, Idaho Power Company ("Idaho Power" or "Company") and hereby responds to the Comments of the Industrial Customers of Idaho Power ("ICIP") filed on January 14, 2011.

## I. BACKGROUND

On January 14, 2011, Avista Corporation ("Avista"), Idaho Power, Rocky Mountain Power ("the Utilities") and the Idaho Public Utilities Commission Staff ("Staff") each filed Comments generally supporting Avista's proposal to implement a new method for calculating the load growth adjustment rates ("LGAR") used in each utility's

Power Cost Adjustment ("PCA") mechanism. Idaho Power and Rocky Mountain Power both filed Comments advocating for the complete removal of all fixed cost components from their respective PCA mechanisms. However, the Utilities and the Commission Staff ultimately agree that the Avista proposal represents a reasonable compromise that will avoid the unintended recovery of fixed costs, thereby resulting in customer rates that are fair and reasonable. For Idaho Power, the Avista proposal also eliminates the potential for double recovery of fixed costs between its LGAR and its Fixed Cost Adjustment ("FCA").

Also on January 14, 2011, the ICIP filed Comments recommending that the Idaho Public Utilities Commission ("Commission") reject the Avista proposal. As an alternative, the ICIP recommended the Commission consider an LGAR based solely on the marginal cost of energy and only be applied asymmetrically when loads are growing.

## II. ICIP'S RATIONALE FOR REJECTING THE AVISTA PROPOSAL

On page one of its Comments, ICIP states that the Commission should reject the Avista proposal because it will "operate the LGAR mechanism in a way for which it was never intended and in a manner that would allow the utility to recover non-existent expenses." This statement by the ICIP is incorrect. An LGAR mechanism derived and applied according to the Avista methodology would not result in the recovery of "non-existent expenses."

The LGAR is a necessary component of the PCA mechanism that must be applied on a symmetrical basis to adjust actual power supply costs to reflect normal load levels. In periods of load growth, the LGAR eliminates the double recovery of power supply expenses and the potential for double recovery of other specific generation-related costs that may or may not be increasing. In periods of load decline, the LGAR is consistently applied to ensure that customers do not receive a double benefit associated with reduced costs through the PCA.

ICIP further states on page 8 of its Comments that "Avista and the other utilities have not demonstrated that what costs they are recovering through the LGAR at times of declining loads." Again, the LGAR does not result in the recovery of "non-existent expenses" in times of declining loads. For Idaho Power, the LGAR simply provides consistency between the numerator and denominator of the PCA rate determination. If the PCA was not adjusted to take into account the reduced revenues from decreased load, the customer would automatically receive double benefits in the PCA. First, customers would receive the benefit of actual reduced costs. Second, customers would receive an additional benefit when the PCA rate was computed based upon a load that was higher than actually occurred. Avista also points out this same fundamental aspect of an LGAR on pages 2 and 3 of its Comments.

On page 8 of its Comments, the ICIP seems to confuse decoupling with double recovery of costs. The ICIP states that because the Staff points out in its Comments that Avista's proposal will only "minimize the decoupling effect of the LGAR mechanism," the Avista proposal is "inconsistent with the Commission's directive to 'eliminate potential double recovery.'" On the contrary, the Avista proposal completely eliminates the potential for double recovery of costs, which was only an issue for Idaho Power. As stated in Idaho Power's Comments, the Avista methodology would remove any double counting between the FCA and the LGAR.

Because each of the utilities classifies a portion of their fixed investment in production plant as energy-related, the LGAR calculated under the Avista proposal would still have a fixed-cost component. However, the variable classification of the fixed-costs would be consistent with that used for all other ratemaking purposes. Therefore, an LGAR derived under the Avista proposal should not be viewed as a decoupling mechanism.

## III. ICIP'S PROPOSAL

The ICIP recommended the Commission consider an LGAR that is (1) based solely on the marginal cost of energy and (2) only applied when loads are growing; i.e., an asymmetrical basis. Idaho Power disagrees with ICIP's entire recommendation.

First, ICIP's recommendation with regard to an LGAR based solely on the marginal cost of energy would have the Utilities move back to a methodology that has already been discarded by the Commission. Order No. 30715 in Case No. IPC-E-08-19 approved a settlement Stipulation under which the parties (including ICIP and Idaho Power) agreed to abandon a marginal cost-based LGAR and adopt Idaho Power's current LGAR methodology. As ICIP correctly points out on page 4 of its testimony, Order No. 30715 approved the settlement Stipulation that discontinued the use of marginal cost in the derivation of the LGAR. The parties to the Stipulation agreed that an LGAR methodology that was based on embedded costs of production would result in rates that are fair and reasonable. The Avista proposal builds upon that stipulated approach with refinements that effectively address the Commission's concerns with regard to unintended recovery of fixed-costs.

Second, for reasons already discussed, Idaho Power disagrees with ICIP's recommendation with regard to an asymmetric application of the LGAR. As stated below, Avista effectively captures Idaho Power's position with regard to symmetry and the LGAR or ("LCAR") on pages 2 and 3 of its Comments:

> **NEED FOR SYMMETRY IN GROWING AND DECLINING LOADS**
>
> Symmetry is needed in applying the same LCAR when loads increase or decline. In a given twelve-month period retail loads could be higher than authorized in some months, and lower than authorized in other months with the change in load for the twelve-month period being higher, lower, or the same as authorized loads. Not applying a consistent LCAR in every month would produce inequitable results for the company and its customers.
>
> When retail loads are higher than authorized loads, there is a higher power supply expense to serve the increase in load that is included in Avista's Power Cost Adjustment (PCA). In Avista's PCA its retail revenue credit, or LCAR, is applied to the increase in load to take into account that there is an increase in retail revenue to correspond with the increase in power supply expense. Absent the LCAR adjustment, customers would be overcharged through the PCA for the increase in power supply expense.
>
> Likewise, when retail loads are lower than authorized loads, there is a lower net power supply expense to serve the decrease in load that is included in the PCA. Avista's retail revenue credit, or LCAR, is applied to the decrease in load to take into account that there is a decrease in retail revenue that corresponds with the decrease in power supply expense. Absent the LCAR adjustment, customers would receive an undo benefit through the PCA, since the net reduction in power supply expense is directly related to a reduction in retail revenue.

## IV. <u>CONCLUSION</u>

Based on the evidence in the Commission's record and for the reasons described above, Idaho Power respectfully requests the Commission issue its Order accepting the Avista proposed LGAR methodology and reject the ICIP's alternative proposal.

DATED at Boise, Idaho, this 28th day of January 2011.

Lisa D. Nordstrom

LISA D. NORDSTROM
Attorney for Idaho Power Company

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that on this 28th day of January 2011 I served a true and correct copy of IDAHO POWER COMPANY'S REPLY COMMENTS upon the following named parties by the method indicated below, and addressed to the following:

| | |
|---|---|
| **Commission Staff**<br>Kristine A. Sasser<br>Deputy Attorney General<br>Idaho Public Utilities Commission<br>472 West Washington<br>P.O. Box 83720<br>Boise, Idaho 83720-0074 | X Hand Delivered<br>___ U.S. Mail<br>___ Overnight Mail<br>___ FAX<br>X Email kris.sasser@puc.idaho.gov |
| **Avista Corporation**<br>David J. Meyer<br>Kelly Norwood<br>Avista Corporation<br>P.O. Box 3727<br>Spokane, Washington 99220 | ___ Hand Delivered<br>X U.S. Mail<br>___ Overnight Mail<br>___ FAX<br>X Email david.meyer@avistacorp.com<br>kelly.norwood@avistacorp.com |
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