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IDAHO PUBLIC  
UTILITIES COMMISSION

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Boise, Idaho 83702

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION )  
OF IDAHO POWER COMPANY FOR )  
APPROVAL OF AN AGREEMENT FOR )  
ELECTRICITY SUPPLY AND MANAGE- )  
MENT SERVICES BETWEEN IDAHO )  
POWER COMPANY AND IDACORP )  
ENERGY SOLUTIONS, LP )  
\_\_\_\_\_ )

CASE NO. IPC-E-00-13  
  
APPLICATION

COMES NOW, Idaho Power Company, and hereby requests that the Commission issue its Order approving Idaho Power Company's entering into the attached Agreement For Electricity Supply and Management Services (the "Agreement") by and between Idaho Power Company ("Idaho Power"), an Idaho Corporation, and IDACORP Energy Solutions, LP, a Delaware Limited Partnership, dba IDACORP Energy ("IES"). A copy of the Agreement is attached as Exhibit 1. Idaho Power is also requesting the Commission to approve the Statement of Policy and Code

of Conduct which is attached as Exhibit 3. In support of this Application, Idaho Power hereby states as follows:

I.

**BACKGROUND**

1. Idaho Power is an electric utility subject to the regulation of the Idaho Public Utilities Commission ("Commission"). Idaho Power and IES are both wholly-owned subsidiaries of IDACORP, Inc. The activities of IES are not regulated by the Commission.

2. Idaho Power owns and operates electric generating equipment and transmission facilities ("System Resources") to supply the electric load and service reliability requirements of its customers. Idaho Power also performs wholesale electricity marketing activities to acquire electricity to supplement System Resources and to optimize their operation. These activities provide Idaho Power's customers with additional system reliability and with additional revenue offset which is used to reduce their overall cost of energy.

3. Idaho Power has also engaged in power transactions in the wholesale power market which do not involve sales from System Resources and are not related to balancing system loads and resources or achieving system reliability. Such transactions are referred to as "non-operating transactions." Transactions in the wholesale marketplace that involve the sale of energy capacity from System Resources or are made for the purpose of balancing system loads and resources or achieving system reliability are referred to as "operating transactions." In Case No. IPC-E-99-3 (Idaho Power's 1999-2000 PCA case), FMC and the Industrial Customers of Idaho

Power ("ICIP") expressed concern relating to Idaho Power's operating and non-operating transactions and whether expenses and capital costs are being properly allocated between operating and non-operating transactions. In response to those comments, the Commission, in Order No. 28049, directed the parties to determine, informally, how best to address the issue. Subsequently, on February 14, 2000, the Commission Staff filed a report addressing some of the issues raised by the Industrial Customers in the IPC-E-99-3 case. The Commission acknowledged receipt of that report in Order No. 28358 in Case No. IPC-E-00-6 (Idaho Power's 2000-2001 PCA case) and encouraged the parties to address the issues further.

4. IES is engaged in the marketing of electricity and natural gas on the wholesale level, and makes sales directly to end users in those states where retail access is permitted. Operating in this competitive environment, IES has developed the capability to provide a full range of electricity and natural gas supply management services.

5. In response to the concerns expressed in the above-cited cases, Idaho Power intends to move its non-operating marketing operations into a separate entity. IES has been chosen as that entity. IES will rent office space from someone other than Idaho Power, will have its own employees, and will be managed and operated independently from Idaho Power. Idaho Power will still provide some corporate support services, such as human resources services and legal services. These support services will continue to be supplied pursuant to a Support Services Agreement subject to audit by the Commission. Moving non-operating transactions to IES will substantially reduce the levels of support services currently provided by Idaho

Power and will provide a clear line of demarcation between the regulated and nonregulated electric marketing businesses of IDACORP, Inc. By entering into this Agreement, Idaho Power would no longer participate in the nonregulated market, and the more speculative transactions that are currently "non-operating transactions" would be undertaken exclusively by IES. Idaho Power believes that the transfer of trading activities from Idaho Power to IES and the physical and structural separation of IES from Idaho Power should meet the concerns expressed by the Industrial Customers and acknowledged by the Commission in the above-cited orders.

6. The size and complexity of the wholesale markets for electricity and ancillary services has increased dramatically in the past few years. The increased volume of wholesale transactions between suppliers, marketers and consumers of bulk electricity has created an increasing demand for market participants to maintain a high level of market intelligence and understanding of market movements. The increasing availability of sophisticated financial instruments for managing price volatility risk for electricity transactions has further stimulated the burgeoning wholesale market for electricity. Regardless of the status of the restructuring of the retail electric industry in the state of Idaho, this expanding wholesale market is and will continue to significantly affect the way Idaho Power, the Commission, and Idaho Power's customers will operate in this changing environment.

7. To prudently respond to this evolving wholesale electricity market, and to comply with the orders of the FERC governing the exchange of market information between Idaho Power's transmission business and other market participants, Idaho Power has been required to substantially increase the number of

employees and amount of other resources it directs toward compliance with regulatory requirements for participating in this electricity market. While the expanding wholesale market has the potential to provide opportunities for increased price efficiency resulting from a larger and more diverse group of market participants and products, there are certainly greater costs and risks associated with managing power supplies within this new environment.

8. Idaho Power's goal is to prudently and cost-effectively participate in this new market. Idaho Power believes there are significant cost savings and market risk mitigation benefits that could be realized by contracting with IES to provide electricity marketing and other electricity supply management services to Idaho Power. Idaho Power believes that the proposed relationship between Idaho Power and IES under the IES Agreement is substantially similar in structure and intent to existing contracts covering natural gas supply management services approved by the Commission for both Intermountain Gas Industries and Avista Energy.

## II.

### DESCRIPTION OF THE AGREEMENT

9. Under the Agreement, Idaho Power will continue to own, operate and maintain its System Resources and be responsible for system reliability. Idaho Power will continue to dispatch the System Resources to match generation and load within the Idaho Power control area. The Agreement will not modify Idaho Power's commitment or ability to manage its System Resources in a manner that will provide Idaho Power's customers with access to all available capacity and energy from Idaho Power's System Resources on a first-priority basis.

10. Under the Agreement, to balance system loads with resources, IES may purchase power from third parties and resell the power to Idaho Power when IES determines that such transaction would result in a lower cost to Idaho Power. With the exception of forward term contracts which IES will broker with third parties, Idaho Power will make all of its wholesale power purchases from IES at market prices. The market prices for sales from IES to Idaho Power (and from Idaho Power to IES) will be determined by reference to published market indices (Mid-C or Palo Verde) or through the solicitation of quotes from a number of potential suppliers or purchasers.

11. As a part of its services under the Agreement, IES will buy power from Idaho Power at market prices when IES determines that Idaho Power has surplus power for sale and that such sales would be beneficial to Idaho Power and its customers. With the exception of forward term contracts which IES will broker with third parties, Idaho Power will make all of its wholesale power sales to IES at market prices.

12. From time to time IES may act as a broker between Idaho Power and third-party wholesale purchasers or sellers. IES will function as a broker for term forward contracts which will be specifically approved by Idaho Power's Oversight Manager in accordance with Section 16 below.

13. In addition to the power purchases and sales described above, the Agreement provides that IES will provide office support services for marketing activities. IES will confirm purchases and sales, administer contracts, coordinate scheduling of energy transactions in adherence with transaction protocols, and resolve discrepancies between the net of all sales, purchases and wheeling transactions. IES will also provide Idaho Power with risk management services to mitigate price volatility risk.

14. Idaho Power will continue to be responsible for planning System Resource operations and for preparing and obtaining regulatory acknowledgment of the integrated resource plan as required by the IPUC and the OPUC. IES will assist Idaho Power in load forecasting and reviewing resource adequacy and resource options to create a cost-effective strategy for satisfying future load requirements.

15. IES will also provide finance and accounting support and counterparty credit analysis for power marketing activities. IES will be responsible for invoicing all counterparties and providing collections and reconciliations. IES will also provide certain communications services, including public relations, web-based commerce innovations, internal and external message development, and collateral support.

16. To ensure ongoing and timely consultation and oversight of IES's services, IES and Idaho Power will each designate an officer or senior manager to provide such oversight ("Oversight Manager"). Idaho Power's Oversight Manager will report directly to the office of the Chief Executive Officer and to Idaho Power's Risk Management Committee. The Idaho Power Oversight Manager will be responsible for coordinating with IES and providing a single decision-making point from Idaho Power concerning IES's provision of the power marketing and system management services.

### III.

#### **BENEFITS FOR CUSTOMERS**

By entering into the Agreement with IES, Idaho Power believes it will be able to lower its expenses, reduce the risks associated with power market volatility, and maintain its existing high level of system operating efficiency and reliability. Idaho Power believes it can capture those benefits by means of the following:

## Reduced Costs

(a) Economies of Scale. To participate in the rapidly expanding and increasingly complex wholesale power markets, Idaho Power has been required to expand its professional staff and provide them with increasingly more sophisticated technology. IES also possesses the personnel and technology necessary to manage power supplies in this competitive electric market. By contracting with IES, Idaho Power can directly reduce its costs for support technology, personnel and related overheads. This will result in lower overall costs for Idaho Power's customers. Attached as Exhibit 2 is a chart showing the increases in cost Idaho Power has experienced since 1997 directly related to greater participation by Idaho Power in the wholesale markets. Exhibit 2 also shows the potential cost savings which could accrue to Idaho Power if the Agreement is approved by the Commission.

(b) Increased Market Presence. Idaho Power believes that its commodity pricing will be improved with the IES Agreement in place. IES's continual access to physical and financial market information, access to a wider array of commodity and third-party transmission sources, and a larger, more sophisticated professional staff using enhanced technology will, in Idaho Power's judgment, result in overall lower commodity prices on the purchase side and higher returns when surplus System Resource output is sold.

## Reduce Risks Associated With Market Volatility

(a) Recent events have certainly demonstrated that today's more volatile energy markets can present significant risks for utilities and potentially for their customers. Under the Agreement, Idaho Power will obtain increased access to a very



experienced group of professional power marketers and market volatility risk managers. IES can provide a more sophisticated level of monitoring of both transactions and counterparty credit to augment Idaho Power's existing safeguards.

(b) Under the Agreement Idaho Power will also have increased access to people familiar with sophisticated financial instruments intended to reduce risk and mitigate price volatility.

#### Maintain System Efficiency and Reliability

Under the IES Agreement, Idaho Power will continue to own, operate, maintain and dispatch the System Resources. All of Idaho Power's existing system reliability standards, operating criteria and maintenance processes are kept in place.

#### IV.

#### CODE OF CONDUCT

In conjunction with the attached Agreement, Idaho Power is offering to put in place a formal Statement of Policy and Code of Conduct which would further define the relationship between IES and Idaho Power. The proposed Statement of Policy and Code of Conduct is attached as Exhibit 3. The voluntary adoption of such a Statement of Policy and Code of Conduct is consistent with Idaho Power's commitment that this new arrangement will not be managed in a way that would disadvantage Idaho Power's customers.

#### V.

#### NOTICES

Communications with reference to this Application should be sent to the following:

Barton L. Kline  
Senior Attorney  
Idaho Power Company  
P.O. Box 70  
Boise, ID 83707

John R. Gale, General Manager  
Pricing and Regulatory Services  
Idaho Power Company  
P.O. Box 70  
Boise, ID 83707

VI.

**PROCEDURAL ISSUES**

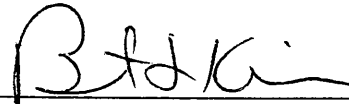
In Order No. 28049 the Commission directed the Commission's Staff to ". . . coordinate with Idaho Power, FMC, the ICIP and all other interested persons to determine, informally, how best to address the issue (capital and expense allocation between operating and non-operating transactions). Those parties might consider conducting a workshop. If necessary, any or all of them are free to petition this Commission to initiate a formal case. . . ." Order 28049, p. 5, parenthetical added. Idaho Power believes that this application provides a vehicle for accomplishing the Commission's desire that the interested parties address this issue. Idaho Power believes that this case should be processed on Modified Procedure which would include a workshop followed by a prehearing conference. Idaho Power believes it is important to schedule a prehearing conference so that the parties have a set date to report to the Commission the progress achieved in the workshop. Idaho Power would be willing to take the initiative in setting up and facilitating the workshop. It is Idaho Power's hope that it can receive the necessary regulatory approvals that would allow IES to proceed under the Agreement effective January 1, 2001. In addition to the Idaho Commission filing, Idaho Power will also have to file with the FERC, the Oregon PUC, and possibly the Nevada PUC. Obviously this is an ambitious schedule, and Idaho Power is hopeful that the interested parties can work cooperatively to achieve this goal.

VII.

CONCLUSION

The enclosed Agreement For Electricity Supply and Management Services and Statement of Policy and Code of Conduct represent a reasonable and prudent response to the new environment in which Idaho Power, its customers and the Commission must operate today. The arrangement contemplated by the Agreement is substantially similar to the arrangement approved by this Commission for the gas operations of Intermountain Gas Industries and Avista Energy. The Agreement provides Idaho Power and its customers with a means to reduce expense and better manage the risks attendant to today's more volatile power markets. Idaho Power respectfully requests that the Commission issue its Order approving Idaho Power's execution of the Agreement and approving the Statement of Policy and Code of Conduct.

DATED this 1st day of September, 2000.



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BARTON L. KLINE  
Attorney for Idaho Power Company

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that on the 1st day of September, 2000, I served a true and correct copy of the within and foregoing APPLICATION OF IDAHO POWER COMPANY upon the following named individuals by the method indicated below, and addressed to the following:

Donald L. Howell, II  
Deputy Attorney General  
Idaho Public Utilities Commission  
472 W. Washington Street  
P.O. Box 83720  
Boise, Idaho 83720-0074

<u>  X  </u>	Hand Delivered
<u>      </u>	U.S. Mail
<u>      </u>	Overnight Mail
<u>      </u>	FAX

  
\_\_\_\_\_  
BARTON L. KLINE

# **EXHIBIT 1**

**AGREEMENT FOR ELECTRICITY SUPPLY MANAGEMENT SERVICES**

**BETWEEN**

**IDAHO POWER COMPANY AND IDACORP ENERGY SOLUTIONS LP**

**THIS ELECTRICITY SUPPLY MANAGEMENT SERVICES AGREEMENT**

(the "Agreement") is made and entered into as of the \_\_\_\_\_ day of \_\_\_\_\_, 2000, by and between IDAHO POWER COMPANY ("Idaho Power"), an Idaho corporation, and IDACORP ENERGY SOLUTIONS LP, dba IDACORP ENERGY ("IES"), a Delaware Limited Partnership. Idaho Power and IES may also be referred to in this Agreement individually as "Party" or collectively as "Parties." Idaho Power and IES are both wholly-owned subsidiaries of IDACORP, Inc.

**RECITALS**

A. Idaho Power owns and operates electric generating equipment and transmission facilities to supply the electric load and service reliability requirements of its customers.

B. Idaho Power performs wholesale electricity marketing activities to acquire electricity to supplement its own electric generation resources and to optimize the operation of its electric generation resources. These activities provide Idaho Power's customers with additional system reliability and with additional revenue offset which is used to reduce their overall cost of energy.

C. IES is engaged in the marketing of electricity and natural gas and has the capability to provide electricity and natural gas supply management services.

D. Idaho Power and IES are both wholly-owned subsidiaries of IDACORP, Inc.

E. Idaho Power believes there are cost-savings and risk mitigation benefits that could be realized by contracting with IES to provide electricity marketing and other electricity supply management services.

### **AGREEMENT**

1. Services. IES will perform those electricity supply management services for Idaho Power (the "Services") that are more particularly described in the "Statement(s) of Services" which are attached to this Agreement. Each Statement of Services shall be construed as a part of this Agreement. If there are any conflicts between the terms and conditions contained in the body of this Agreement and the terms and conditions in a Statement of Services, the terms in the Statement of Services shall prevail.

2. Term. This Agreement shall remain in effect for five (5) years from the date final approval from the Commissions is obtained in accordance with Section 9 herein ("Initial Term"). Following the Initial Term, this Agreement will be automatically extended for additional two (2) year terms ("Extension Terms") unless either Party cancels this Agreement by giving notice of cancellation at least six (6) months prior to the expiration of the Initial Term or any Extension Term.

3. Compensation. IES's compensation for providing the Services provided shall be in accordance with the schedules set forth in each Statement of Services.

4. Cooperation. Consistent with all applicable Commission-approved Standards of Conduct and/or Codes of Conduct, each Party will provide the other Party with such information that may be reasonably required by the other to manage their activities under this Agreement. Each Party shall designate an officer or senior manager to facilitate management communication between the Parties ("Oversight Managers"). The Oversight Managers shall be the authorized representatives of the Parties and shall have the responsibility of coordinating with the other Party's Oversight Manager regarding IES provision of the Services. Each Party understands that effective management of this Agreement depends on the Oversight Managers' timely and effective decision-making and approvals of proposed actions. Each Party shall inform the other in writing of the name and any limitations on the scope of authority of its Oversight Manager.

5. Invoicing and Payment. Unless otherwise specifically agreed in a Statement of Service, the Parties shall submit invoices monthly for Services provided and reimbursable expenses incurred through the end of each month. Invoices will include information reasonably required to verify the items billed. Bills will be payable fifteen (15) days following the date of the rendered bill ("Due Date"). Interest will accrue on all payments due and unpaid after the Due Date until paid at the rate of one percent (1%) per month.



6. Commission Jurisdiction. The respective rights and obligations of the Parties hereunder shall be subject to the jurisdiction and regulatory authority of the Idaho Public Utilities Commission (IPUC), the Oregon Public Utility Commission (OPUC), the Public Utility Commission of Nevada (PUCN), and the Federal Energy Regulatory Commission (FERC). The IPUC, the OPUC, the PUCN and the FERC are hereinafter collectively referred to as "Commissions."

7. Codes of Conduct. At all times the Parties shall observe the Standards of Conduct and/or Codes of Conduct approved by the Commissions.

8. Compliance With Laws and Regulations. IES shall observe all applicable laws, ordinances, rules and regulations relating to delivery of the Services, and shall procure and maintain in force, at its sole expense, all registrations, permits, licenses, and approvals required by law or governmental authority to perform the Services.

9. Commission Approval. This Agreement and any future amendments shall not become effective until the Commissions have issued their respective final orders approving the Agreement or any future amendments. If the final orders of any of the Commissions initially approving this Agreement contain material terms or conditions that either Party finds unacceptable, within fourteen (14) days of the issuance of the order, the adversely affected Party will have the right to cancel this Agreement by giving thirty (30) days written notice of cancellation to the other Party.

10. Future Regulatory Authority. If in the future the laws of the United States or the laws of the states of Idaho, Oregon or Nevada are modified to materially

reduce or eliminate the FERC's, the IPUC's, the PUCN's or the OPUC's authority to regulate all or any portion of the activities addressed by this Agreement, the Parties agree that only those portions of this Agreement which by their terms are subject to the continuing jurisdiction of the FERC, the IPUC, the PUCN or the OPUC shall continue to be subject to Section 6 above.

11. General Provisions.

11.1 Successors and Assigns. This Agreement and all the terms and provisions hereof shall be binding upon and inure to the benefit of the respective successors and assigns of the Parties hereto, except that no transfer by merger or otherwise, nor any assignments hereof by IES shall become effective without the prior written consent of Idaho Power being first obtained. Such consent shall not be unreasonably withheld or delayed.

11.2 Taxes. IES shall be responsible for payment of all taxes, including, but not limited to, sales, use, gross receipts, transaction, business and occupation or any other taxes, licenses or fees assessed by any taxing jurisdiction directly associated with providing the Services. If either Party is entitled to an exemption from any such taxes or fees, it shall furnish the other Party satisfactory supporting documentation. IES shall include in its invoices for Services provided pursuant to this Agreement, and Idaho Power will reimburse IES for any taxes (except taxes based on IES payroll or net income), licenses, or fees assessed or to be assessed against IES by any taxing jurisdiction, directly as a result of providing the

Services, including, but not limited to, sales, use, gross receipts, transactions or business and occupation taxes.

11.3 Warranty of Title. Each Party warrants that it has or will have title to all electrical energy or capacity or transmission capability purchased or sold pursuant to this Agreement and that such products will be free and clear of all liens, encumbrances and adverse claims.

11.4 Venue. This Agreement shall be governed and interpreted in accordance with the laws of the State of New York and venue for any litigation shall be the Fourth Judicial District Court for Ada County in Boise, Idaho.

11.5 Changes. Any change, modification or alteration of this Agreement shall be in writing, signed by the Parties.

11.6 Limitation of Liability. In no event will either Party be liable hereunder for indirect, consequential, punitive or exemplary damages.

IN WITNESS WHEREOF, the Parties have executed this Agreement the day and year first above written.

IDAHO POWER COMPANY  
("Idaho Power")

By \_\_\_\_\_  
Its \_\_\_\_\_

IDACORP ENERGY SOLUTIONS LP  
dba IDACORP ENERGY (IES)

By \_\_\_\_\_  
For IDACORP, Inc. General Partner

## ATTACHMENT 1

### STATEMENT OF SERVICES NO. 1

#### ELECTRICITY SUPPLY MARKETING AND MANAGEMENT

##### 1. Definitions

When used in this Statement of Services No. 1, the following terms have the following meanings:

Power Marketing means the sale and purchase of electric capacity and energy, together with associated transmission services and ancillary services. Power Marketing includes providing all of the individual Services described in Sections 2 and 3 of this Statement of Services No. 1.

System Resources means the electric generation facilities owned by Idaho Power, the electrical energy and capacity generated by those facilities or purchased by Idaho Power from third parties, and any associated Ancillary Services. For purposes of this Agreement, System Resources expressly exclude transmission facilities and transmission capability owned or acquired by contract by Idaho Power.

Native Load means the electric loads of Idaho Power's retail customers located in Idaho Power's certificated area in the states of Idaho, Oregon and Nevada and the loads of Idaho Power's full-requirements wholesale customers, including the City of Weiser, Idaho.

Terms defined in the main body of the Agreement will have the same meanings in this Statement of Services.

##### 2. General Description of Services to be Provided.

- 2.1 IES will provide Idaho Power with the Power Marketing and System Resource management functions ("Services") generally described in this Section 2 and more particularly described in Section 3 below. The Parties intend that the Services provided under this Statement of Services No. 1 will include those Power Marketing and associated System Resource management services necessary to allow Idaho Power to supply its Native

