



An IDACORP Company

IDAHO POWER COMPANY  
P.O. BOX 70  
BOISE, IDAHO 83707

RECEIVED  
FILED



2004 MAR 19 AM 8:28

IDAHO PUBLIC  
UTILITIES COMMISSION

BETSY GALTNEY  
Regulatory Affairs Representative  
Pricing & Regulatory Services

(208) 388-5309  
FAX (208) 388-6449  
E-MAIL [bgaltney@idahopower.com](mailto:bgaltney@idahopower.com)

March 18, 2004

Ms. Jean Jewell  
Commission Secretary  
472 West Washington  
PO Box 83720  
Boise, Idaho 83720-0074

RE: Case No. IPC-E-01-16  
Tier One Violations

Dear Ms. Jewell:

A provision of the Stipulation in Case No. IPC-E-01-16, which was approved by the Commission in Order No. 29102, provides that Idaho Power will advise the Commission, Commission Staff and CAG of any Tier One System Risk Limit violations and describe the actions the Company has taken to address such violations. The Company has previously discussed Tier One violations with the Commission Staff and the CAG and is now providing the following report to the Commission.

Recently the Company has experienced breaches of the System Risk Limits. The System Risk Limit is currently set at \$100 million. (See attached worksheets, which highlight breaches of the System Risk Limit and the actions taken by the RMC to alleviate or correct breach.) These breaches have occurred for multiple reasons with eroding hydro conditions and reduced thermal production being the main drivers for the 2003-2004 PCA Year breach and adverse power markets movements and continual reduction in the hydro availability forecasts being the main drivers for the 2004-2005 PCA Year breach. Breaches of the System Risk Limit have been addressed by the RMC in each instance. Based on the cause of the breach the RMC has decided to let the Tier One violation stand, approve the execution of purchase orders to completely eliminate the Tier One violation or approve the execution of purchase orders to reduce the upward pressure on the Tier One Limit but not completely correct the breach. The rationale for these decisions is highlighted in the appropriate RMC meeting minutes. As the minutes reflect the Company was continually aware that in situations where it was possible to cure or reduce the System Risk Limit violation through purchases to cover deficits under the low water/high-price case scenario, such corrective measures would make the Company significantly long under the expected case--an imprudent action.

The continual breach of the System Risk Limit and the fact that the breach did not necessarily correlate to a significant rise in the PCA deferral balance called into question the efficacy of the Tier One risk management strategy. (The 2003-2004 PCA deferral balance as of February 29, 2004 is \$48.8 million.) This issue has been discussed within the RMC and with the Customer Advisory Group and Staff, those parties that had collaborated to establish the annual System Risk Limits. All parties recognized that there was a difference between the Tier One variance and PCA deferral balance. The three tiered risk management policy currently in place protects against adverse movements in net power supply costs as measured by the variance between a baseline established in October of each year and the forecast of power supply costs under a low water/high-price case scenario (Tier One) while the accumulated PCA deferral balance records the variance of actual PCA "formulated" power costs from a forecasted number set in the Spring of each year. The issue put before the collaborative

was whether in the short term the System Risk Limit should be increased to prevent hedging activity that could drive the Company to be carrying an excessively long portfolio or if the collaborative was comfortable with the RMC handling the decision of whether or not to cure a breach on a case by case basis. The collaborative agreed to defer that decision to the Company and Staff with the understanding that if appropriate a long-term strategy would be discussed at the next CAG meeting.

The Risk Management group has evaluated the issue and recommends maintaining the current process and guidelines for calculating and reporting Tier One Variance. The most recent Operations Plan presents the Variance once again within the System Risk Limit. This is the result of improvement in the current low-case forecast plus prior hedges ordered and executed. Until the Fall CAG meeting (when guidelines are reviewed and set), we recommend addressing violations of Tier One guidelines individually as described in the Policy, with RMC decisions (including potential exceptions) documented in meeting minutes.

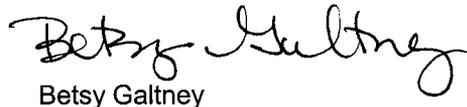
Risk Management makes this recommendation for the following reasons:

- a. Any changes to the current System Risk Limit could be seen as arbitrary in nature and would not address the "root of the problem,"
- b. mid-stream changes in the calculation of the Tier One variance and the components associated with its calculation will hinder analysis of the Company's risk management program as required by the Commission,
- c. modification of the System Risk Limit requires Board approval which is not foreseeable until at least June 2004 and,
- d. RMC review System Risk Limit violations on an individual basis will prevent over hedging of the Company's portfolio.

The Company will propose improvements to the Tier One risk management strategy at the Fall CAG meeting based on discussion with Staff and the Company Board of Directors. Should you wish to discuss this issue further, please feel free to contact me.

In addition, Terri Carlock is also well informed on the issues presented in this letter should you have any immediate questions.

Cordially,



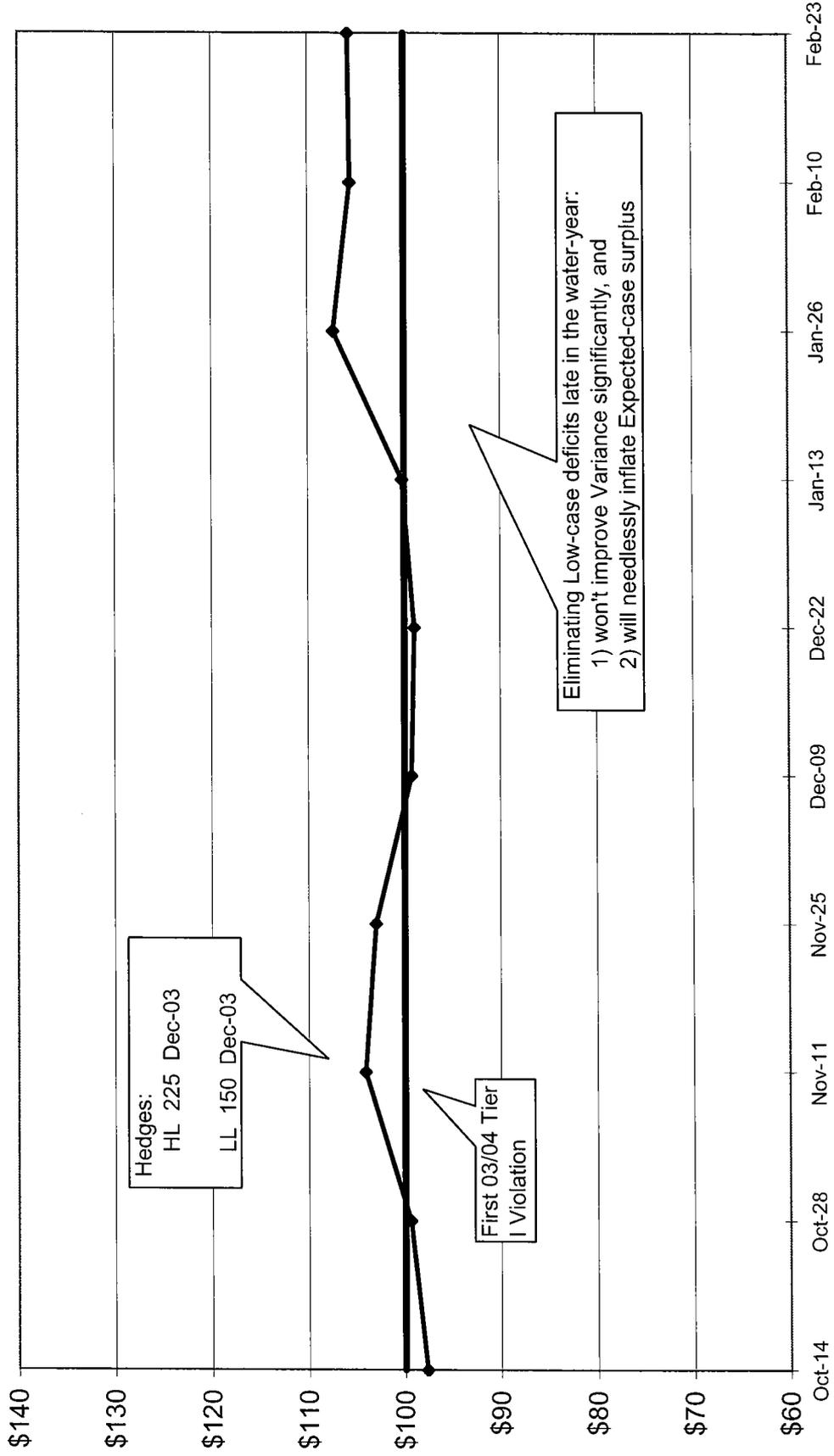
Betsy Galtney

BG:ma

Attachments

c: Terri Carlock, IPUC  
Randy Lobb, IPUC  
Lisa Nordstrom, IPUC  
Ric Gale, IPCO  
Legal Files  
P&RS Files

# 03/04 Tier I Variance (\$M)



Hedges:  
 HL 225 Dec-03  
 LL 150 Dec-03

First 03/04 Tier I Violation

Eliminating Low-case deficits late in the water-year:  
 1) won't improve Variance significantly, and  
 2) will needlessly inflate Expected-case surplus

RMC Meeting

# 04/05 Tier I Variance (\$M)

