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An IDACORP Company

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IDAHO PUBLIC
UTILITIES COMMISSION

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September 28, 2004

Ms. Jean Jewell
Commission Secretary
Idaho Public Utilities Commission
PO Box 83720
Boise, Idaho 83720-0074

RE: Compliance Filing

Dear Ms. Jewell:

In Order No. 29102 issued in Case No. IPC-E-01-16, the Commission directed Idaho Power Company to submit the Risk Management and Policy Manual and Risk Guidelines as approved by the Idaho Power Company Board of Directors Audit Committee to the Commission for final review and approval. On December 4, 2002, the Company submitted the Policy Manual and Risk Guidelines to the Commission.

Since that time, as required by the Policy, the Company, with input from the Customer Advisory Group and the Idaho Public Utilities Commission Staff, has revised the Policy Manual by adopting 2005-2006 Risk Guidelines. The September 2004 Policy Manual with revised Risk Guidelines represents a collaborative effort among Idaho Power customer representatives and the Idaho Public Utilities Commission Staff.

The Policy requires that any modifications to the Policy be filed with the Idaho Public Utilities Commission upon approval by the Audit Committee of the Board of Directors of Idaho Power. On September 16, 2004, the Audit Committee voted unanimously to approve the revised 2005-2006 Risk Guidelines. Accordingly, attached to this Compliance filing is an original and six copies of the September 2004 Idaho Power Company Energy Risk Management Policy Manual incorporating the 2005-2006 Risk Guidelines as approved by the Audit Committee of the Board of Directors. The policy has also been updated to reflect the retirement of John Prescott from the Risk Management Committee and the appointment of Mr. Jim Miller and Mr. Dan Minor to new positions within the Company.

Three extra copies of this compliance filing are enclosed for Randy Lobb, Lisa Nordstrom, and Terri Carlock. Copies have also been sent to the Customer Advisory Group.

Very truly yours,

Betsy Galtney

Betsy Galtney

BG:ma
Enclosures

c: Randy Budge
David Hawk
Pam Eaton
Dan Kincaid
Francis McDonnell
Don Reading
Peter Richardson
Janice Stover
Lynn Tominaga
Ric Gale, IPCO (w/o attachment)
Bart Kline, IPCO (w/o attachment)

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IDAHO PUBLIC
UTILITIES COMMISSION

IDAHO POWER COMPANY
ENERGY RISK MANAGEMENT
POLICY MANUAL

September 2004

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I. Risk Management Policy Introduction and Scope

Idaho Power Company ("IPC" or "the Company") is an investor-owned utility serving customers in Idaho and Oregon.

The Company's customers and shareholders are exposed to a variety of market-driven and operational risks. For customers, these risks can lead to a higher cost of power. For shareholders, these risks can lead to a diminution in cash flow and net income. By resolution of the Idaho Power Company Board of Directors, (see Appendix A) the Company is mandated to engage in a program on behalf of both customers and shareholders that systematically identifies, measures, evaluates and actively manages, and reports on the market-driven risks associated with its operations.

The policies being established herein shall address the means by which the Company will manage these risks in a manner consistent with the Idaho Power Company Board of Directors' authorization to engage in such activity. On an interim basis, reasonable discretion will be granted to the President to modify the Policy. **However, on a timely basis, any interim modifications authorized by the President must receive approval by the Audit Committee of the Board of Directors and be filed with the Idaho Public Utilities Commission ("IPUC").**

Every employee involved in the risk management process must sign the form attached as Appendix G acknowledging individual responsibility to comply with this Policy.

The Company shall create a risk management program that will overlay a control framework on existing practices. Such a program will consist of the establishment of predefined risk parameters, a delineation of management responsibilities, and a set of organizational relationships within the Company. The program will further consist of the development and implementation of transaction accounting systems and procedures for systematically identifying, measuring, evaluating, and responding to the variety of risks inherent in the Company's operations. The program's control framework will consist also of a disclosure and reporting mechanism designed to keep the Senior Management team responsible for supervising risk and all levels of management fully informed of the operation's day-to-day status with respect to its performance parameters. The implementation of these control measures, which are detailed in the sections and appendices to this document, will define and constitute the Company's Energy Risk Management Program.

In addition to the policies set forth in this Policy, the President, officers, and all employees involved in the energy exposure management activities of the Company shall receive a copy of the *Idaho Power Company Energy Risk*

Management Procedures Manual, as that document becomes available. The *Procedures Manual* exists to define the operational implementation of the policies set out herein and to ensure compliance by employees of the Company with the approved practices governing the Company's exposure management activities.

II. Establishment of a Collaborative Approach with Customers

Most of the risk management activity undertaken by IPC will be on behalf of customers. As a result, it is essential that IPC undertake to create and maintain a collaborative approach with customers surrounding the framework of the risk management program. The risk management program will be characterized by the following features:

- IPC staff will conduct an annual collaborative review and additional workshops as needed with IPUC Staff and customer representatives to enhance the understanding of the risk profile faced by IPC's customers;
- IPC will seek input from IPUC Staff and customer groups with respect to desired risk tolerances and solicit upfront support for proposed implementation procedures;
- IPC will provide IPUC Staff with regular updates on the status of the IPC risk position and its impact on the accumulated power supply costs.

III. Energy Risk Management Policy Objectives

The objective of the IPC energy risk management program is to protect against adverse movements in net power supply costs faced by customers and shareholders. The methods used to manage power supply costs are described in Section V of this Policy. The least cost energy supply will be identified and documented. However, the overall objective (to manage the cost of energy supply with respect for the risk tolerance of the stakeholders) should complement the Company's efforts to achieve the lowest cost of energy supply within the identified acceptable limits of risk.

In order to accomplish this objective, the risk management program will provide Senior Management, directors, and customer representatives with a process to quantify the sensitivity of the Company's power supply costs to movements in energy markets and to manage the market-based risks.

The Company's risk management program will not contain an element whereby corporate risk management decisions are based on IPC's uncertain expectations of future market price movements. Risk management positions will not be established that create incremental aggregate market exposure to the Company. Risk management positions can only be established that reduce the Company's aggregate underlying exposure to market price movements. The decision to enter or not enter into any proposed hedging transaction will not be dictated by IPC's market price view.

The efficacy of the risk management program will be benchmarked against the contribution made by the risk management activity to the containment of market exposures within agreed-upon risk tolerances called "Risk Guidelines". Gains or losses incurred on hedge positions in isolation will not be included in the program compliance process.

Any proposed transaction exceeding the maximum term stated in Appendix E shall require authorization from the President prior to execution.

The President will request input from the IPC Energy Risk Management Committee in any decision-making process surrounding energy risk management issues.

The President shall report at least annually to the Board of Directors to obtain approval for the Company's policies, strategic direction, and program parameters surrounding its risk management program activities. Further, the President shall provide reports to the Audit Committee of the Board of Directors at least quarterly on the nature and profile of the Company's market exposure and on the results of the risk management program activities. Copies of these reports will be maintained by the Legal Department with the risk management documentation.

C. IPC Energy Risk Management Committee

A senior management team established by resolution of the Board of Directors is responsible for providing advice and recommendations to the President on energy risk management-related issues and providing senior level oversight of the risk management program. This group called the IPC Energy Risk Management Committee, or "RMC", shall be appointed by the President. Those individuals serving on the RMC appear in Appendix B. Committee decisions are based on an affirmative majority vote of a quorum of the RMC. A quorum consists of at least 50% of the RMC membership (Appendix B). Decisions made outside scheduled RMC meetings require a majority affirmative vote of the full RMC membership, responding by electronic or other means.

The RMC may also request other parties to attend the meetings for expert advice/consultation; however, those individuals will not be members of the RMC or be entitled to decide any matters on behalf of the RMC.

The RMC shall report at least quarterly to the President to provide an update on the energy risk management program activities.

The RMC has been charged by the President with oversight responsibility for the following aspects of the risk management program:

a) Development of energy risk management policies and procedures;
b) Communication with external customer groups with respect to risk management issues and the solicitation of upfront support for any risk management initiative from these external groups;
c) Authorization of strategic hedging program guidelines under which hedges are to be established;

d) Authorization of specific commodities and derivative instruments to be utilized;
e) Resolution of any disputes concerning the appropriate application of the Policy that may arise;
f) Development and authorization of appropriate systems for recording, monitoring and reporting the commodity exposure inherent in the Company's operations and the risk management activity undertaken to alter the underlying risk profile;
g) Recommendation to the Board of the appropriate Risk Guidelines based on the collaborative process with customer representatives;
h) Authorization to permit modification to hedging activities associated with Tier constraints;
i) Authorization to permit the deferral of risk mitigation activity should a Risk Guideline be breached;
j) Authorization of term hedging activity required under the Policy.

With the assistance of the Middle Office function responsible for the quantification of risk (as outlined in Section IV-E), the RMC will also be responsible for the monitoring of compliance with the Policy. To the extent that the RMC believes that compliance is not being maintained or risk tolerance parameters have been breached, they are required to give written direction to the appropriate officers or employees of the Company to take such action on the Company's behalf to bring it into compliance with the Policy. Such action shall be taken based on an affirmative majority vote of a quorum of the RMC.

The RMC's mandate also includes the ongoing general assessment of the appropriateness of the Company's strategies for energy risk management activities, taking into account current and expected future economic conditions and their effect on the general business environment, both internally and externally. **The policies described in this document cannot be altered except by approval of the President.**

The RMC or any officer of the Company may request that the President make a change in this Policy or its appendices. Such requests shall include an explanation of the application and benefit of the proposed change to the Company. For new risk management products, the explanation should also be in accordance with the New Product Initiation Process described in Section IX of this Policy. For any change in a policy or procedure described in this Policy to become effective, it must be approved by an affirmative vote of the President. **However, on a timely basis, any interim modifications authorized by the President must receive approval by the Audit Committee of the Board of Directors and be filed with the IPUC.**

The RMC shall meet at least once a month, or more frequently as requested by the Chairman of the RMC. The purpose of the meetings will be to review and approve the current risk management activities of the Company. Minutes of the

RMC meeting will be kept as an accurate record of the actions of the RMC. Minutes will include a discussion of decisions made by electronic mail correspondence between members of the RMC regarding power transactions and other action relevant to RMC authority.

D. Energy Transactions Group (Front Office)

The execution of day-ahead and real-time transactions will be conducted by the Energy Transactions Group. The execution of RMC-approved term transactions for periods beyond the day-ahead timeframe will be performed by a member of the Transactions Group called a Transaction Specialist. The Policy and accompanying Procedures Manual will identify a largely automated approach to the implementation of hedge transactions, with very limited discretion. However, if errors occur in executing RMC hedge orders, those hedges will be unwound immediately by the Transaction Specialist upon discovery and any such unwinding will not require prior RMC authorization.

E. Risk Management Group (Middle Office)

The monitoring and reporting of IPC's risk positions will be conducted by the Risk Management Group or its designee. This Risk Management Group shall serve as an independent compliance group for the Company's energy risk management program, providing periodic revised forecasts of power supply costs based on current forward market conditions and the potential variance in the power supply costs forecast based on different pricing and resource availability scenarios. The designee is responsible for measuring, evaluating, and reporting to the Company's management and the RMC the amount of exposure faced by the Company and its customers through its portfolio of ongoing operating exposures and outstanding risk management transactions.

The Risk Management Group oversight responsibilities will include the following:

- Involvement in corporate decisions that impact the Company's exposure to market and operational risks;
- Development and maintenance of the process and systems to identify, quantify and report the market risks embedded in the operations of the Company;
- Quantification of market exposures from a corporate perspective;
- Determination of credit ratings to counter parties;
- Ensuring that limits prescribed in this Policy are not exceeded;
- Monitoring approved counterparty credit exposures for risk management transactions undertaken by IPC;
- Notification to the RMC as soon as market risk or credit risk limits are exceeded;
- Review of transactions involving new commodities, new delivery points and/or new risk management structures. This review will consider

potential liquidity constraints and the ability to monitor the position through time, following the guidelines established for the New Product Initiation Process described in Section IX; and

- Preparation of reports with respect to current positions, including the forecast power supply costs and the potential variability in power supply costs.

F. Resource Dispatch Planning

IPC staff is responsible for the development of resource availability forecasts and load forecasts. This data will be used to optimize the resource dispatch plan.

G. Power Supply Reporting (Back Office)

The Power Supply Reporting function within IPC will have the following responsibilities:

- To make and receive payments under all transactions;
- To control the flow of confirmations for term transactions;
- To maintain the appropriate accounting of hedge transactions;

H. Legal and Regulatory Services

The IPC Legal Department will assist in the counterparty documentation process outlined in Section IX of this Policy. The IPC Pricing and Regulatory Services Department will have the responsibility to co-ordinate the collaborative approach with customer representatives and to ensure the receipt of appropriate risk management information by IPUC Staff.

I. Long Term Resource Planning

Longer term resource acquisition policies will continue to be governed by the Integrated Resource Planning (IRP) process. The planning coordination between the IRP and the risk management policies will be reviewed and discussed with customer representatives and Commission Staff in conjunction with the annual establishment of risk management guidelines described below. The Risk Guidelines as adopted each year will reflect a collaborative effort between Idaho Power, customer representatives, and the Idaho Public Utilities Commission Staff. The Company will consider both demand-side and supply-side options consistent with the IRP in the annual Risk Guideline development process. The IRP process will operate under the direction of the RMC.

V. Market Risk

The quantification of market risk for electric generation and distribution companies is a complex process. The Policy calls for the development of a risk quantification framework over time while recognizing the need in the interim to define a risk management implementation strategy prior to the establishment of the requisite risk quantification system. The Market Risk section of the Policy begins by outlining the interim market risk management approach and is then followed by a description of the risk management approach and guidelines that IPC will strive to implement over the medium term as the technology to monitor the IPC risk position in a more advanced fashion is employed.

A. The Interim Risk Guidelines – Risk Guidelines - The Three-Tier Approach

In the interim, IPC will define market risk as the exposure to adverse movements in regional power prices, in conjunction with adverse hydro conditions. The risk management horizon covered by this Policy will be centered around PCA year periods. Risk will be tracked for the current PCA year and will be tracked for the subsequent PCA year beginning on October 1st, thus a maximum of 18 months will be tracked.

The proposed implementation strategy would have three risk limit structures or tiers. The first level of exposure limit would be tied to estimates of the impact of the low-water/high-price scenario on the accumulated power supply costs. The second exposure limit would be a monthly volumetric exposure limit. The third tier takes advantage of low-price market conditions when the benefit to customers of participating in a further price decline falls below the benefit of avoiding the impact of any subsequent price rise.

The RMC may authorize modifications to hedging activities associated with each Tier constraint to recognize more efficient market transactions (i.e. buy for a quarter instead of individual months or establish or remove hedges in exact increments).

The Risk Guidelines (Appendix F) as adopted each year on or around October 1st, will reflect a collaborative effort between Idaho Power, customer representatives, and the Idaho Public Utilities Commission Staff.

(i) Tier One – System Risk Limit

The Company will set an upper tolerance limit for the negative variance between the Baseline Expected Cost Forecast ("BECF") and the low-water/high-price scenario called the System Risk Limit (see Appendix F). The Company will manage the low-water/high-price scenario within the System Risk Limit. The parameters for the estimation of the BECF are as follows:

- Established on or around October 1 of each year;
- Based on expected water conditions and based on system conditions on or around October 1;
- Based on forward market prices on or around October 1 to estimate purchase power costs and the revenue from any forecast surplus;
- Tied to revenue and costs for system purchases or sales including cogeneration and fuel (FERC accounts 547102, 555, 447, and 501).

The parameters for estimation of the low-water/high-price scenario are as follows:

- Low-water is based on current snowpack and 50% of normal precipitation through the remainder of the current runoff season;
- The high-price is calculated on the basis of a 95% confidence interval move based on a lognormal distribution and implied volatility levels sourced from the marketplace. Only one time in 20 would one expect to witness a rise in price greater than the high-price estimation;
- The high-price is applied only to those months where a deficit is forecast under a low-water year scenario. The forward market price will be applied to all other forward months.

On at least a monthly basis or more frequently if mandated by the RMC, updates will be run on the low-water/high-price scenario and the expected cost forecast. The revised expected forecast will be used for the second and third tier limit structure but does not form a component of the first tier limit analysis.

If the variance between the updated low-water/high-price cost scenario and the BECF is greater than the System Risk Limit established by the RMC, forward purchases will be executed to reduce the risk below the variance limit. The parameters governing the execution of hedge transactions are as follows:

- IPC will establish hedges first on the nearest-month deficit positions and will continue to move out along the forward curve until sufficient hedges have been established so that the variance between the low-water/high-price scenario and the BECF has fallen below the limit. The rationale for this approach is to take advantage of more attractive liquidity characteristics in near-term forward months;

- Hedges will be established in minimum tranches;
- Revisions to the low-water/high-price scenario may create a situation where Tier One hedges may be considered for removal. The Risk Management Group will assess hedges eligible for removal and make recommendations to the RMC. Tier One hedges will only be considered for removal in minimum tranches (as defined in Appendix F) when **both** 1) Tier One variance remains within limits after the hedge is removed, and 2) volumetric position of the hedge-initiating hydro-case (expected or low) after removing the hedge is closer to balanced (net position may not change from long to short). Caution should be exercised in the removal of hedges such that subsequent Tier One violations do not become highly probable. When removal of Tier One hedges is warranted, nearby months will be liquidated first.

(ii). Tier Two –Volumetric Limit (Deficiencies and Surpluses)

IPC will limit its heavy-load ("HL") and light-load ("LL") volumetric exposure for any month during the PCA year in question to a maximum number of MW as indicated in Appendix F. The parameters around this limit structure are as follows:

- Deficiencies are managed to the expected water scenario;
- Surpluses are managed to the low-water scenario;
- Hedges would be established in minimum MW tranches to bring IPC back below the Volumetric Limit;
- Revisions to the forecast may create a situation where Tier Two hedges may be considered for removal. The Risk Management Group will assess hedges eligible for removal and make recommendations to the RMC. TierTwo hedges will only be considered for removal in minimum tranches (as defined in Appendix F) when **both** 1) Tier One variance remains within limits after the hedge is removed, and 2) volumetric position of the hedge-initiating hydro-case (expected or low) after removing the hedge is closer to balanced (net position may not change from long to short, or short to long);
- Positions will be determined on a flat basis for both HL and LL without regard for hourly shaping at this time;
- Positions will be determined based on "in-the-money" resources. Peaking units which are deemed to be uneconomic based on current forward prices would not be included in the determination of total resources;
- The initial establishment of position limit hedges will commence on or around October 1 and must be executed by December 31 of the year prior to the upcoming PCA year. Positions will be established in a ratable fashion. The rationale for execution flexibility is not to take advantage of price views but to ensure the orderly execution of these forward positions in the marketplace.

- For those months where forward-market liquidity exists for multiple-month blocks (e.g. quarterly) rather than single-month blocks, IPC will initially manage the exposure on a quarterly basis. For example, if one was deemed to be in deficit one month 300 MW and in surplus 150 MW in each of the two other months in the quarter, the quarterly position would be deemed to be flat and no hedging would be required. If the net quarterly position was in excess of the volumetric limit, a quarterly hedge would be established on this net position. As liquidity improves to the point where the monthly block trades on a discrete basis, the hedge management will be shifted to an examination of monthly positions on a stand-alone basis with the appropriate monthly hedge positions established.

(iii). Tier Three – Floor Limit

This tier facilitates the establishment of hedge positions when it is deemed that the benefit of maintaining participation in a further price decline is less than the benefit of reducing the exposure to a potential upside price movement. These positions are not established based on a price view – IPC fully recognizes that after these positions are established, there is some probability that prices will fall. However, to reiterate, the ability to avoid any negative exposure to a potential price rise is deemed to be more valuable than the retention of further downside price participation.

The tier involves the establishment of HL and LL price targets for forecast deficiency positions under both the expected scenario and the low-water scenario. The limits are described in Appendix F.

Revisions to the forecast may create a situation where Tier Three hedges may be considered for removal. The Energy Transactions Group will assess hedges eligible for removal and make recommendations to the RMC. Tier Three hedges will only be considered for removal in minimum tranches (as defined in Appendix F) when **both** 1) Tier One variance remains within limits after the hedge is removed, and 2) volumetric position of the hedge-initiating hydro-case (expected or low) after removing the hedge is closer to balanced (net position may not change from long to short).

(iv). Breach of Limits

The low-water/high-price scenario may result in a breach of the System Risk Limit for two reasons:

- Adverse power market movements, changes in load forecasts, reduced thermal availability or reductions in hydro availability could serve to increase the forecasted year-end power supply costs;

- Increasing power price volatility.

The Volumetric Limits could be breached by altered forecasts of hydro availability.

The Floor Limits may be beached if circumstances do not allow a transaction specialist to enter into time-sensitive transactions.

Guideline violations should be addressed in the following order: Tier Two; Tier Three; Tier One. Tier Two hedges are executed at market to bring the current surplus/deficit position within volumetric Guidelines. Tier Three purchase volumes would be in addition to Tier Two activity, but only where prices below the Guidelines can be achieved. Tier Two and Tier Three purchases reduce, and could possibly eliminate, a pre-existing Tier One violation. Addressing a Tier One violation before Tier Two and Tier Three would very likely result in superfluous transactions, with the potential to needlessly increase power supply costs.

If the risk analysis reveals that hedging action is required under any of the three tiers, the IPC Transaction Specialist must enter into RMC approved cost-effective risk management transactions that reduce positions below the risk limits. If market conditions prevent efficient execution of the requisite risk-reducing transactions, or if forecast results for outlying months rely too heavily on estimated weather and hydro conditions, the IPC Transaction Specialist will approach the RMC for a deferral of the execution of these transactions. Prior to approving this deferral, the RMC must be provided with justification for deferring the risk-reducing activity.

All members of the RMC and the President will receive daily notification and ongoing reports detailing any limit breach, until this breach is rectified. The RMC will also be notified via the Exception Log of any exceptions to normal execution and clearing of transactions.

(v). Day-Ahead Risk Approach

It is the policy of IPC that it will enter each day in a forecast flat position whenever possible. Day-ahead transactions will be established to reduce or eliminate whenever possible any hourly surplus or deficit positions. The objective of this policy is to mitigate customer and shareholder exposure to the extreme volatility that can occur on a real-time basis.

However, in some circumstances it will be prudent to retain a surplus/deficit position entering the day of delivery. Forward power products (including day-ahead products) are not typically available to match a utility's retail demand profile, which varies by hour throughout the day. Thus, a "balanced" position

forces some deficit hours and some surplus hours. Market and system conditions can combine in situations where a totally "balanced" position is anticipated to be detrimental in terms of cost or risk. The Energy Transactions Group will document the need for and the results of a planned unbalanced day-ahead position. The RMC will periodically review the tactics for effectiveness, and order continuation or suspension of individual tactics based on results.

B. The Prospective Market Risk Approach

(i). Market Risk Definition

In the future, market risk will encompass a broader definition than the definition used for the interim approach. Market risk for the Company will be defined as the uncertainty with respect to power supply costs caused by changes in anticipated market pricing for natural gas, power, generation unit outages, hydro availability, transmission constraints and customer load. Market risk will be defined in quantitative form as power supply costs-at-risk ("PCAR"). The PCAR measures the extent to which the power supply costs may deviate from forecast expectations within a statistically defined confidence interval based on movements in market prices, generation resources and customer load.

(ii). Market Risk Quantification

Determining the Company's PCAR involves complex arithmetic modeling. It will be the responsibility of the IPC Risk Evaluation function to develop and refine the optimal quantitative model that generates a PCAR estimation that is credible, reproducible and can be determined in a timely fashion.

There are several parameters associated with the PCAR calculation that will be governed by the Policy:

- **Holding Period**. The PCAR will be based on a holding period through the conclusion of the relevant exposure period. The current-year risk calculation will be through the conclusion of the current PCA year. The subsequent year risk calculation will be through the conclusion of the subsequent PCA year. Risk associated metrics will be defined based on industry practice in determining holding periods.
- **Confidence Interval**. The PCAR will be based on a confidence interval defined in an appendix.

The selection of other modeling parameters will be at the discretion of the IPC Risk Management Group. This discretion will apply to a number of parameters including:

- The anticipated volatility in model inputs like power prices, natural gas prices, fuel oil prices, transmission constraints, load and generation statistics, foreign exchange and interest rates;
- The distributional characteristics of these variables;
- The correlation between the input variables.

A fundamental component of the Company's ongoing risk analysis is the updated forecast of the year-end power supply costs based on current expectations of future power and natural gas prices, load and generation resources over the remainder of the exposure period. The updated end-of-year power supply costs information is required to manage the Company's risk profile because it provides Senior Management with ongoing snapshots of performance versus budgeted expectations.

(iii). System Risk Limit

IPC will calculate on an as needed basis the current forecast year-end power supply costs and also the PCAR. These two amounts will be summed and compared against the System Risk Limit.

(iv). Breach of System Risk Limit

The sum of the forecast year-end power supply costs and the PCAR can increase above the approved System Risk Limit for several reasons:

- Adverse market movements, alterations in load or reductions in generation availability could serve to increase the forecasted year-end power supply costs;
- Increasing volatility in the parameters impacting power supply costs can lead to an increase in the PCAR.

Should the sum of the forecast year-end power supply costs and the PCAR reveal that the System Risk Limit has been breached, the IPC Transaction Specialist must enter into cost-effective risk management transactions that reduce the year-end forecast power supply costs plus the PCAR below the System Risk Limit. If market conditions prevent efficient execution of the requisite risk-reducing transactions; the IPC Transaction Specialist will approach the RMC for a deferral of the execution of these transactions. Prior to approving this deferral, the RMC must be provided with justification for deferring the risk-reducing activity.

All members of the RMC will receive daily notification and ongoing reports detailing any risk limit breach until this breach is rectified.

VI. Credit Risk

A. Credit Exposure Defined

Credit exposure is defined as the risk that a counterparty to a transaction will be unable to fulfill its present and future financial obligations to the Company. This credit exposure would extend to counterparties with whom the Company trades physical commodities, as often payment for the delivery of the product does not occur until after delivery has been made in full. In addition, substantial unrealized gains or losses may accrue in physical contracts prior to any delivery obligation. Credit exposure also exists for Over-the-Counter (OTC) traded derivative transactions, as the value of outstanding contracts can escalate substantially over time without the counterparty having to post or deposit any security in the form of the payment of collateral.

Managing credit exposure becomes an important component in the overall risk management program. The creditworthiness of trading partners, both in the physical and financial marketplace, becomes a function of both qualitative and quantitative factors, centered on the credit rating assigned a counterparty by the major credit rating services or an internal evaluation of the counterparty's ability to pay. Information relating to the credit standing of any given trading partner can be determined by factors such as its credit rating published by one of the commonly recognized rating agencies, market intelligence, electronic news releases and other public information sources.

B. Counterparty Credit Standards

Credit exposure to any given counterparty consists of three components. The first is the traditional measure of credit risk – accounts receivable due from the counterparty for the current and next month sales. The second is the cost of replacing the instrument in the marketplace today, defined as a trading position's current or "mark-to-market" value. The third is an estimate of the future replacement cost of a transaction, known as potential exposure, which is additional exposure created from the increase in the mark-to-market in the event prices shift in a certain direction.

The current replacement cost of a transaction evaluates the actual risk to the Company that a counterparty will fail to perform on its financial commitments. This is the current value of the transaction to the Company based on the movement in the price of the underlying market relative to the contract price, and can be either a positive or a negative amount. If the market value of the transaction is negative (i.e., the Company owes money to the counterparty based on a mark-to-market valuation) then there will be no current replacement cost exposure. Quantification of current exposure to a counterparty is a function of a mark-to-market calculation.

Potential credit exposure to any counterparty is calculated by stressing prices to extremes of recent history. If the resulting (total) exposure is in excess of the maximum allowable limit for the applicable rating class, mitigation is required. Exceptions require advance RMC approval. The Risk Management Group will use a methodology resulting from the following price scenarios:

- 200% of current forward prices (100% increase in prices)
- 75% of current forward prices (25% decrease in prices)

These price scenarios will be revisited as prices change from current levels. For example, if prices rise from the current levels, the low-price scenario will be adjusted to reflect a more realistic downward move (ie). If prices are high the potential for downward movement is greater and the decrease might need to be shifted to a 75% decrease in prices.

It is important in an analysis of credit exposure to determine whether netting applies to the counterparty with whom the Company has a number of open positions. Gross exposure measurement weighs equally the absolute value of both positive and negative exposures, while netting allows a consolidated measurement of the net exposure. Exposures will be netted whenever the contracts with the counterparty provide for this practice.

Monitoring credit information of counterparties and assigning counterparty credit limits shall be performed by the Risk Management Group. Credit and term limits for each category of counterparty are defined in the Appendix D. Calculation and distribution of the counterparty credit analyses are to be performed independent of the execution function, ensuring appropriate segregation of duties within the Company.

C. Extension of Credit

The Company will enter into transactions with a counterparty only when the potential exposure, when added or netted with the current credit exposure with the same counterparty for such transaction, will not exceed the maximum limit and term based on the assigned credit rating assigned to that counterparty. It is the responsibility of the Risk Management Group to communicate, on a daily basis, the amount of available credit for each counterparty to the IPC Transaction Specialist.

D. Limit Exception Process and Violations

The IPC Transaction Specialist will immediately suspend initiation of additional business with individual counterparties where that specific counterparty's credit limit has been reached or exceeded. This situation might occur due to an increase in volatility and/or market price movements adversely impacting the counterparty's position with the Company. The Risk Management Group must approve any exceptions to the counterparty's credit limit prior to any new transactions. Exceptions are not to be requested or approved after the proposed transactions has been entered. The Risk Management Group must bring any approved credit exceptions to the attention of the RMC at its next meeting.

Under no circumstances is the IPC Transaction Specialist permitted to knowingly increase the credit exposure to a counterparty that has exceeded its approved level of credit with the Company until the Risk Management Group reviews the credit limit and grants written authorization. **Violations of the Credit Exception process will be reported to the RMC to determine corrective action.**

E. Credit Exposure Reporting

Reporting of credit exposures should provide management with relevant, accurate and timely information about counterparty credit exposures and approved lines of credit. Reporting of credit exposure against pre-defined limits shall be done daily by the Risk Management Group.

VII. Program Compliance

Every employee involved in the risk management process must sign the form attached as Appendix G acknowledging individual responsibility to comply with this Policy.

Audit Services will periodically evaluate the process and procedures of the Policy.

VIII. Systems and Accounting

A. Systems

An information system (the "System") shall be maintained to identify, track, quantify and report all outstanding elements of the Company's portfolio that are subject to variances in power prices, and hydro availability. The System will track both market risk and credit exposure over the time horizon delineated in this Policy. It is the responsibility of the Risk Management Group to implement and monitor the System to ensure that the integrity, timeliness, and accuracy of the information provided are consistent with the Company's requirements for control over the risk portfolio.

B. Accounting for Transactions

For external reporting, audit, and control purposes, the process of accounting for transactions is a key element that must be adhered to at all times, and is described in greater detail in the Company's Energy Risk Management Procedures Manual.

IX. Documentation, New Product Initiation

A. Legal Documentation

To ensure an appropriate level of control, the following policies shall govern documentation of external transactions that involve the establishment of pricing mechanisms for power:

> Physically-settled transactions shall be governed by the Company's standard agreements or such other agreements that reflect generally accepted commercial practices for the underlying marketplace and the Company's criteria for physically-settled transactions. These agreements will typically be the WSPP agreement for electricity transactions.

The Power Supply Reporting group, with assistance from the Legal Department, is responsible for negotiating original documentation with all counterparties and having it signed by the appropriate officer of the Company as soon as possible following initiation of transactions, and in any event within ninety days of the initial transaction activity with a counterparty. If the appropriate Document is not signed within 90 days, the RMC will be notified through the Counterparty Credit Analysis report with an explanation as to why the Document has not been signed and an estimate as to when a Document may be signed. If the transaction is pending execution of a Document and has a contract term beyond the current PCA year, the RMC will be notified immediately following the transaction in the form of the Counterparty Credit Analysis report if a document has not been signed.

All confirmations for transactions with a counterparty that has not signed a Document must provide that the Company may terminate the physically-settled or financially-settled transaction if a Document cannot be negotiated and signed within a defined time frame of 90 days.

Confirmations of transactions, payment advice and all other correspondence sent by counterparties with regard to risk management transaction activity and the transfer of money, either by wire transfer or by mail, shall be directed to the attention of the Treasury Department. This is done with the intent of maintaining a level of segregation of responsibility from the risk management function within the Company.

Only those signatures that appear in Appendix C - Authorized Signatories can bind the Company to confirmations and/or master contracts with external counterparties.

B. New Product Initiation Process

A new product is a pricing mechanism, commodity or commodity delivery point that is sufficiently different from the slate of instruments and markets previously approved under this Policy that it has a notably differing risk profile or it requires different systems, operational procedures or accounting treatment.

A new product would also include those instruments that may be transacted on a "one-off" basis, which would be implementation of a derivative instrument or entry into a commodity market that, despite the anticipation of being transacted just once, would still fit the definition of a new product.

The purpose of defining a process for the introduction of a new product or instrument is to ensure that the exposures associated with it are thoroughly reviewed and understood by the RMC. On an interim basis, the President must approve the use of all new products or the entry into different commodity markets prior to execution of any such transaction by the Company, with formal ratification by the Board of Directors on a quarterly basis. Products approved for trading are listed in Appendix E, and any new products that receive approval would be added to the list as an amendment to that Appendix.

The IPC Transaction Specialist has the responsibility to define the rationale for each of the new products introduced to the Company in a formal presentation to the RMC, demonstrating that the new product meets certain criteria. In the presentation to the RMC, a business case should be put forth that includes the following:

(i) Business Rationale

- A written description of the product, which includes the purpose, function, expected profitability and benefit to the Company;
- An analysis of the appropriateness of the new product in relation to the Company's overall strategy;
- An analysis of the availability of liquidity in the marketplace for the new product;
- A comparison or differentiation from an existing approved product;
- Internal evaluation of the exposure profile of the product, including detailed stress testing of the product over a broad range of market scenarios and the associated exposure implications;
- Demonstration of the in-house expertise to manage and support the new product; and

- Assurance that an assessment of the potential risks has been completed by the appropriate departments within the Company.

(ii) ***Management Responsibilities***

- A brief description of the responsibilities of the various departments within the Company who will have any manner of contact with the new product;
- Proposed credit and market exposure implications and proposed limits;
- Proposed reporting requirements, including any changes to existing procedures and systems requirements growing from the addition of this new product; and
- Legal, taxation and internal audit review, as necessary, for associated implications to those departments.

No product or geographic region other than those listed in Appendix E are authorized until the President has approved them.

The Risk Management Group in conjunction with IPC trading must immediately report any transactions that involve any commodities or markets that are not pre-approved to the RMC via an immediate publishing on the Exception Report.

X. Management Reporting

This Policy describes various reports to be generated by different groups within Company. The following table describes those reports, their normal frequency, distribution, and the originator of the report:

Report	Content	Distribution	Normal Frequency	Originator
Daily Position Report	(A)	RMC Members President, IPC Transaction Specialist, Risk Management Group, Power Supply Reporting	Daily	IPC Risk Management Group
Weekly Position Report	(A)	RMC Members President, IPC Transaction Specialist, IPC Risk Management Group, Power Supply Reporting	Weekly	IPC Risk Management Group
Counterparty Available Credit Report	(B)	RMC Members, IPC Transaction Specialist, Risk Management Group	Daily	Risk Management Group
Exception Report	(C)	RMC Members, President Power Supply Reporting	As required	Risk Management Group
Minutes of RMC Meeting	(D)	RMC Members, Risk Management Group	Within a reasonable time after RMC meeting	RMC Secretary

A. Daily and Weekly Reports

Daily and Weekly Reports are intended to summarize the open positions and exposures of the Company. They will include:

i. forecast end-of-year power supply cost balance and a comparison to the System Risk Limit (Tier One limit) using the methods described in Section V. of this Policy *[Weekly, or more frequently as events warrant]*
ii. monthly average MW volume for on-peak and off-peak and a comparison to monthly average MW position limits (Tier Two limit comparison) *[Weekly, or more frequently as events warrant]*
iii. current exposure and credit availability to each counterparty *[Daily]* and
iv. summary of executed term transactions since the publication of the previous report *[Daily]*

B. Counterparty Available Credit Report

The counterparty credit analysis contains:

i. available credit by counterparty
ii. notes of credit violations, counterpartys that either exceed or are approaching fifty percent (50%) of their Available Credit limit, changes in ratings or credit limits

C. Exception Log

The Exception Log records all exceptions to normal execution and clearing of transactions, including amendments to existing transactions. The detail included in the report shall include:

i. date exception took place
ii. type of exception
iii. individual responsible for exception, counterparty involved (where applicable)
iv. steps taken to rectify the noted exception
v. date and documentation of corrective action taken

D. Minutes of the RMC Meetings

Documented minutes of the RMC meeting, including discussion and recommendations, will be assembled within a reasonable period of time after every RMC meeting.

XI. Restricted Activities and Disciplinary Action

To ensure that all employees adhere to guidelines and limitations specified in this Policy, disciplinary action will be taken in the event of a breach of Policy. Depending on the nature and extent of the Policy breach, such disciplinary action may lead to termination of employment and criminal prosecution.

The use and disclosure of the financial results, material facts, or information produced through the Risk Management Program is considered to be sensitive, confidential business information. The disclosure of any confidential information associated with the Risk Management Program, beyond the disclosure authorized in this Policy and the accompanying Procedures Manual, is prohibited.

Appendix A: Board Resolutions

Resolution of the Board of Directors Mandating an Energy Risk Management Program for Idaho Power Company

In the normal course of conduct of its business activities, Idaho Power Company ("IPC" or "the Company") and its customers are exposed to a number of business and market-driven variables that can impact the cost of power. The IPC Board of Directors therefore deems it prudent for the Company to engage in energy risk management activities designed to systematically identify, measure, evaluate and manage both the physical and financial exposures to business and market-driven uncertainties within a defined and controlled framework, in collaboration with customer representatives. It is the Board's desire to mandate a program that conforms to its intent to create a risk management control framework. Accordingly, the Board of Directors hereby enacts the following resolutions:

In order to authorize IPC to act in accordance with the Board's desire to develop and maintain a risk management control framework, the Board enacts the following resolution:

Resolution 1: A Committee of Senior Management, called the Risk Management Committee ("RMC") is hereby commissioned. The Board appoints the Vice President of Power Supply to serve as Chairperson of this Committee who will appoint its membership from time to time. The RMC shall be comprised of a balanced composition of Senior Management members ensuring that both the short-term and the long-term business interests of IPC will be considered.

In order to establish broad guidelines that will govern the risk management activities and define management responsibilities in accordance with Board objectives for a defined and controlled framework, the Board enacts the following resolution:

Resolution 2: The RMC shall be responsible to the Board of Directors and is charged with the overall direction, conduct, control and performance of an ongoing Energy Risk Management Program (the "Program") designed to systematically identify, quantify and manage the exposure of IPC and its customers to the uncertainties related to the energy markets in which the Company is an active participant. In the performance of this mandate, the RMC shall be responsible for developing, documenting and communicating a cohesive Energy Risk Management Policy Manual governing risk management activities.

Appendix A: Board Resolutions (continued)

In order to keep the Board apprised of the risk management activities and Program parameters with defined regularity, the Board enacts the following resolution:

Resolution 3: The RMC shall report annually to the Board on the nature of IPC's exposure profile and on the results of the energy risk management activities and annually to obtain approval of IPC's Energy Risk Management Program.

July 18, 2002 IPCO Board Minutes

RESOLVED, That the Idaho Power Company Board of Directors hereby authorizes the establishment of a Risk Management Committee (RMC) charged with the overall direction, conduct, control and performance of an ongoing Energy Risk Management Program (the "Program") designed to systematically identify, quantify and manage the exposure of the Company and its customers to the uncertainties related to the energy markets in which the Company is an active participant and shall be responsible for developing, documenting and communicating a cohesive Energy Risk Management Policy Manual governing risk management activities, and be it

FURTHER RESOLVED, that the Audit Committee of the Board of Directors shall be responsible for the appointment of the members of the RMC including the Chairperson of the Committee provided, however, that the RMC shall be comprised of a balanced composition of senior management for the Company ensuring consideration of both short-term and long-term business interests.

Appendix B: IPC Risk Management Committee Members

- Darrel Anderson
- Ric Gale
- LaMont Keen
- Bart Kline
- Jim Miller
- Dan Minor
- Lori Smith (non-voting)

Appendix C: Authorized Signatories on Behalf of the Company

- LaMont Keen
- James Miller
- Dan Minor

Appendix D: Counterparty Credit Standards and Authority Levels

Authority Levels

President, Idaho Power
- Credit Limits more than $25,000,000

Chief Financial Officer
- Credit Limits up to and including $25,000,000

Chief Risk Officer – Risk Management Group
- Credit Limits up to and including $20,000,000

Manager, Credit Risk – Risk Management Group
- Credit Limits up to and including $15,000,000

Counterparty Scoring Table and Limits

Internal Credit Rating	Maximum Exposure Limit	Maximum Term
A- or higher	$35,000,000	2 years *
BBB+ to BBB-	$20,000,000	2 years *
Below BBB-	$0	

*The President may authorize maximum terms greater than two years.

Appendix E: Approved Instruments, Markets and Commodities

Permitted Instruments

Physical Settlement

Underlying Markets:	All points of interconnection within the WECC commercially manageable and useful to IPC and/or its customers
Type:	Fixed Price Index Price (based on published indices, i.e. Dow Jones)
Term:	Up to and including the prompt 18 months of the forward curve (Transactions with start-date or duration beyond 18 months require President's approval)

Financial Settlement

Underlying Markets:	Mid-Columbia power market Palo Verde power market
Type:	Fixed-for-Float Swap (based on published indices, i.e. Dow Jones)
Term:	Up to and including the prompt 18 months of the forward curve (Transactions with start-date or duration beyond 18 months require President's approval)

Transmission (power) and Transportation (gas) capacity

Permitted Commodities

Electricity, Natural Gas, Coal, Fuel Oil & Diesel

APPENDIX F: RISK GUIDELINES FOR THE 2004-2005 PCA YEAR

TIER ONE

System Risk Limit	$100 million
Hedges Established	25 MW tranches
Hedges Removed	50 MW tranches

TIER TWO

Volumetric Limit	+/-100 MW
Hedges Established	25 MW tranches
Hedges Removed	50 MW tranches

TIER THREE

Hedges Established	25 MW tranches
Hedges Removed	50 MW tranches

The approved seasonal factors listed below will be applied to the Floor Limit prices and rounded to the nearest dollar.

Floor Limits	Heavy Load	Light Load
Expected Forecast	$30	$15
Low-Water Forecast	$20	$10

Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec
92%	92%	91%	87%	90%	113%	116%	119%	110%	95%	94%	100%

The RMC may modify its hedging activities associated with each Tier constraint in order to recognize more efficient market transactions (i.e. buy for a quarter instead of individual months or establish or remove hedges in the most efficient increments).

Appendix G:Employee Acknowledgment Form

Each employee involved in trading and the administration of the trading and risk management process as described herein shall document in writing that he or she has:

1. Obtained, read, and understood a copy of the Idaho Power Company Energy Risk Management Policy Manual;

2. Acknowledged by their signature that a violation of the Policy may constitute grounds for disciplinary action, including termination of employment;

3. Understand the confidential nature of information generated throughout the trading and risk management process, and agree to maintain such information as confidential.

DATE:_____

_____
Employee (print name)

_____
Employee (signature)