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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO IMPLEMENT A RESIDENTIAL AND SMALL FARM ENERGY RATE ADJUSTMENT CREDIT.	)	**CASE NO. IPC-E-01-30** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Application, Notice of Modified Procedure, Notice of Comment/Protest Deadline, and Order No. 28846 issued on September 12, 2001, submits the following comments.

On August 31, 2001, Idaho Power Company (Idaho Power; Company) filed an Application with the Idaho Public Utilities Commission (Commission) requesting approval of a new tariff Schedule 98, which will implement a Bonneville Power Administration (BPA) Residential and Small Farm Energy Credit (BPA Credit). The Credit for which approval is sought is for the period October 1, 2001 through September 30, 2006. The Company requests an effective date of October 1, 2001. The Company requests approval of the proposed accounting entries that are required to track the BPA calculations and related modifications to the Power Cost Adjustment (PCA) calculation.

BACKGROUND

Settlement Agreement

In support of its Application, Idaho Power represents that it signed a Settlement Agreement (Agreement) with BPA whereby Idaho Power received 120 aMW of benefits from the federal Columbia River Power System beginning October 1, 2001. The benefits provided for under this Agreement are to be passed through and shared by the residential and small farm customers of Idaho Power. Idaho Power Company's Idaho residential and small farm customers will receive 115 aMW of benefits. The Company's customers in the state of Oregon will receive 5 aMW of benefits.

The Agreement between Idaho Power and BPA settles the parties' rights and obligations for the Residential Exchange Program provided for by the Northwest Regional Power Act that was designed to benefit the residential and small farm customers of the Pacific Northwest investor-owned utilities (IOUs).

The benefits of the Settlement Agreement consist of two components: a monetary benefit and a firm power sale benefit. The monetary benefit is a direct payment each month by BPA to Idaho Power and is determined by the difference between BPA's forward flat-block price forecast ($38/MWh) and BPA's base residential load firm power (RL) rate ($19.76/MWh). The Company proposes to calculate the power sale benefit as the difference between the average monthly Mid-C price and the monthly residential load firm power rate. The Mid-C heavy load hours (HLH) and light load hours (LLH) prices will be weighted by the amount of power delivered in HLH and LLH hours. The RL rate, adjusted by BPA's cost recovery adjustment clause (CRAC), will be the actual amount billed to Idaho Power by BPA calculated on a daily basis for each revenue month.

The Company has a number of additional options related to the firm power sale component. Idaho Power may take delivery of power and calculate the value of this firm power delivery. The Company may elect to terminate the Firm Power Sale Agreement and convert it to the monetary benefit. Idaho Power Company retains the right to terminate the Firm Power Sale Agreement up to 30 days after FERC grants interim approval for the BPA's wholesale power rates that are effective October 1, 2001. If the Company decides not to terminate the Firm Power Sale Agreement, Idaho Power has the right to have all or a portion of the power delivered or not delivered. If all or a portion of the power is not delivered, it is converted to a cash payment. The cash payment is calculated as the difference between the average firm Mid-C index price for the month and the BPA RL rate less wheeling and losses multiplied by the amount of power Idaho Power does not schedule.

BPA's RL rate is subject to three cost recovery adjustment clauses (CRAC): a "load base" (LB) CRAC, a "financial base" (FB) CRAC, and a "safety net" (SN) CRAC. The firm power sale benefits are subject to all three CRAC amounts, whereas the monetary benefit is only subject to the SN CRAC. The CRAC amounts will be calculated by BPA every six months. Thus, a change in the CRAC amount will change the value of the benefits that flow to residential and small farm customers.

Accounting

Benefits derived, as a result of the Settlement Agreement, will be deferred to Account 254—Other Regulatory Liabilities. Separate subaccounts will be used to distinguish between residential and qualifying small farms by state. The monetary benefit and the net benefit value-cost will be directly credited to Account 254 as well as interest calculated on qualifying small farms retentions. Interest will be charged to Account 431—Other Interest Expense. The payment for power deliveries taken at BPA energy prices will be charged to Account 555—Purchased Power Expense. The benefit associated with the power deliveries taken, will be the difference between the Mid-C price and the amount paid to the BPA for the power and will be accounted for by debiting Account 557—Other Power Supply Expense and crediting Account 254. The result being that the charges to Account 555 and Account 557 will reflect a purchased power expense amount equivalent to having purchased power at the average Mid-C price for the month. Charges to Accounts 555 and 557 will be included in the calculation of the deferral of power cost under the PCA mechanism.

Account 254 will be cleared (debited) and the offsetting credit being applied to Account 142—Customer Accounts Receivable for the total benefit passed through to the qualifying customers including any interest on qualifying small farms retentions.

Power Cost Adjustment (PCA) Modification

The Company states that without a modification to the PCA, the net benefits of the BPA power acquisition will be distributed twice. The PCA calculations will reflect the same net benefit used to establish credits on residential and small farm accounts. Three line item modifications to the PCA calculation are required. Two of the line item modifications relate to the purchase power expense for the 63 MW. The third line item modification is required to reflect the value of the 63 MW purchase in excess of the direct 63 MW purchase expense.

Benefit Distribution/Calculation

The Company proposes to pass through the estimated benefit amount on a uniform cents per kilowatt hour basis to all qualifying customers served under Schedules 1, 3, 24, and 25, as well as Prairie Power schedules A and I. The calculation of the benefit for all residential customers will be performed monthly and passed through beginning with the Cycle 1 billing cycle commencing October 25, 2001. The calculation of benefit for qualifying irrigation customers is, the Company states, much more problematic since the benefits may only be received by irrigation customers with agricultural pumping loads 222,000 kilowatt hours per month or less. Benefit dollars to be passed through to qualifying small farm loads will be calculated monthly, but will be retained and passed through on an annual basis, concurrent with the annual kWh and property tax rebate program.

STAFF ANALYSIS

Contract Terms

As indicated in its application, the Company ‘s settlement agreement with BPA consists of two components: a monetary benefit and a firm power sale benefit. As currently proposed, the monetary benefit generally reflects the value as determined by BPA of providing 57 aMW to Idaho Power. The firm power value benefit is the difference between the price paid to BPA for 63 aMW delivered to the Company and the value of that power on the market.

The Company also indicates that it has a number of additional options related to the firm power sale component that include termination and conversion to a monetary benefit. In other words, Idaho Power, for a limited period, can still elect to take an all cash payment in lieu of any power delivery. In deciding how to structure the Agreement with BPA, the Company must take into consideration a number of variables forecast into the future to compare the economic benefit of the various contract options.

The Company has not provided any analysis comparing benefits of the various alternatives projected into the future nor has the staff attempted to perform such an analysis. Given the uncertainty of future conditions and the fact that a final decision on contract terms has not yet been made, Staff’s review in this case will be limited to the mechanism proposed to distribute the credit. Staff does not believe that the ultimate terms of the contract will materially affect the operation of the credit mechanism. The terms will determine whether treatment through the PCA will be required.

Accounting Treatment and the PCA

As previously indicated, BPA credits may be provided in two forms, monetary benefits and power benefits. Both the monetary benefits paid directly to Idaho Power by BPA and the power benefits quantified as a result of BPA power deliveries will be tracked directly through sub-accounts in Account 254-Other Regulatory Liabilities with interest charged to Account 431-Other Interest Expense. Payout of benefits to qualifying customers will be recorded in Account 142-customer accounts receivable. Staff believes that the derivation of benefits due qualifying customers and the accounting methodology to record accrual and payout of such benefits is reasonable. Staff recommends that these portions of the credit mechanism be approved as proposed.

However, Staff does not agree with Idaho Power's proposed treatment of expenses that result from BPA power actually delivered. Specifically, Staff believes that expenses associated with the purchase of BPA power, including the cost to purchase and the cost of benefits paid to qualified customers, should be jurisdictionally allocated and shared within the PCA like any other non-QF system power cost. Under the Company's proposal, expenses associated with the purchase of 63 Mw from BPA will be excluded (through an adjustment) from account 555 and 557 for PCA purposes. The Company then directly assigns the expenses entirely to Idaho and Oregon without the normal 90/10 sharing of costs that is required for all non-QF power supply expenses. The result is reduced allocation of system power supply costs to the FERC jurisdiction, increased allocation of those costs to the Oregon/Idaho jurisdictions and elimination of Company cost sharing associated with the purchase of 63 Mw.

Staff agrees that the 90/10 cost sharing provision of the PCA should not apply to the cost of benefits paid to qualifying customers. The Company is not required to share in the cost of providing benefits if it selects monetary payment from BPA. Similarly, it should not be required to share the cost of benefits paid when power is delivered by BPA.

The attachment to Staff comments (based on Company Exhibit No. 6) compares the Company's proposed treatment of costs in the PCA under a BPA power purchase arrangement to the Staff recommendation for a typical month. Line 19 shows Staff's inclusion of BPA purchase power costs in the system power supply costs that are shared and allocated in the PCA. Line 46 shows that quantified benefits of delivered power paid by Idaho Power to qualifying customers, while not shared 90/10, are allocated to all jurisdictions under the Staff recommendation. Lines 55 and 56 demonstrate the Company's proposal to directly assign costs associated with BPA purchases (both direct purchase costs and payment of benefits) without any allocation to the FERC jurisdiction or application of the 90/10 sharing provision. Finally line 59 shows the added benefit to Idaho customer's that results from the Staff recommendation.

Staff's recommendation does not change the calculation of benefits derived nor the benefits returned to qualifying customers as a result of power purchases from BPA. It simply applies existing PCA methodology to recover expenses associated with power actually delivered. The only exception is that Idaho Power is not required to share the **cost** of benefits quantified and returned to customers. Moreover, the Staff recommendation assures that the FERC jurisdiction shares in the cost of a BPA power purchase program that reduces system power supply costs in other areas such as fuel, other power purchase expenses or increased power sales. Non qualifying customers in Idaho and Oregon share the BPA purchase power expense and so should the FERC jurisdiction as would be required for any other non-QF power purchase expense.

Tariff Schedule 98

Idaho Power proposes to pass back the BPA credits through Idaho Tariff Schedule 98 and Tariff Schedule EC for the Prairie Service Territory. The Tariff Schedules are proposed to be effective October 1, 2001 and remain in effect for the duration of the BPA credit contract. The Schedule will apply the actual credit to each residential customer's bill the month following the actual accrual of the BPA exchange benefit. Given the uncertainty in customer consumption and BPA exchange benefits, Staff believes the Company's proposal provides a reasonably accurate and timely method of crediting residential customers. Staff also recognizes the difficulty in identify and providing credit to a small farm customer on a monthly basis. In an effort to balance administrative cost with timely disbursement of credits, Staff recommends approval of the Company's proposal to reimburse small farm customers once a year. Finally, Staff recommends that monthly market prices, monthly energy used subject to the credit and monthly credits paid be reported in conjunction with current reports provided for the PCA.

STAFF RECOMMENDATION

Staff recommends approval of the Company's Application to implement a Residential and Small Farm Energy Rate Adjustment Credit with the following modifications:

1) The cost of delivered BPA Power and the quantified benefit of that power that is disbursed by Idaho Power to qualifying customers should be allocated to all jurisdictions within the PCA like any other power supply expense.
2) The cost of delivered BPA power should be shared 90/10 by customers and Idaho Power like any other non-QF power supply expense.
3) Benefits derived and paid by Idaho Power to qualifying customers for BPA power delivered should be excluded from the 90/10 sharing provision of the PCA.
4) The Company should report monthly market prices, monthly energy used subject to the credit and monthly credits paid in conjunction with current reports provided for the PCA.

Respectfully submitted this day of September 2001.

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Deputy Attorney General

Technical Staff: Michael Fuss
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