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IDAHO PUBLIC  
UTILITIES COMMISSION

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE REMAND )	
CONCERNING IDAHO POWER COMPANY'S )	CASE NO. IPC-E-01-34
REQUEST TO RECOVER "LOST REVENUE" )	(ON REMAND)
FROM THE 2001 IRRIGATION LOAD )	
REDUCTION PROGRAM THROUGH THE )	RESPONSE OF IDAHO
PCA MECHANISM IN THE 2004/2005 )	POWER COMPANY TO
PCA YEAR. )	FILED COMMENTS
_____ )	

As provided by Order No. 29612 issued by the Commission On Remand, Idaho Power Company ("Idaho Power" or the "Company") hereby replies to the comments that were filed in response to the Commission's October 15, 2004 Notice of Modified Procedure. Comments were filed by the Commission Staff ("Staff"); Idaho Irrigation Pumpers Association ("Irrigators"); and the Industrial Customers of Idaho Power ("Industrial Customers"). Each comment will be addressed separately and the Company will then provide a brief summary.

## COMMISSION'S NOTICE

Since the Commission's Notice of Modified Procedure ("Notice") provides the basis upon which the parties' comments were filed, it is appropriate to first address the Commission's description of the Company's request contained in that Notice. The Commission's Notice succinctly and accurately discusses the background leading up to the implementation of the Irrigation Load Reduction Program. In the Notice, the Commission solicited additional comments from the parties regarding the calculation of the Company's lost revenues as a result of the implementation of the Irrigation Load Reduction Program. The Commission's discussion of the Company's proposed methodology for calculating lost revenue contained on pages 2 and 3 of the Commission's Notice accurately and succinctly describes the Company's methodology.

Two points are of particular interest. First, as per Commission directive:

"Idaho Power met with the parties in this case to discuss its proposed methodology for computing the lost revenues. At this meeting, the Company outlined a three-part methodology to calculate the lost revenue. Following this meeting, the Company adjusted the proposed methodology. Order No. 28992 at 2."

(Order No. 29612 dated October 15, 2004, p. 2.)

Second, the Commission's Notice, in describing the Company's methodology, stated:

"After calculating the amount of lost revenue, two other adjustments were made. Consistent with the PCA mechanism, the amount of lost revenue was reduced by 10% to account for the 90/10 sharing adjustment in the PCA. In addition, the

jurisdictional allocation process further reduced the calculated amount by 15% to allocate costs to Oregon customers.”

(Order No. 29612 dated October 15, 2004, p. 3.)

No party has contended that the Commission’s description of the methodology utilized by the Company to calculate lost revenue is inaccurate. Accordingly, the Company submits that the Commission’s Notice and the resulting description of the Company’s methodology in the Notice provides the basis on which to review the comments of the parties.

### **COMMISSION STAFF’S COMMENTS**

#### **A. Staff Concurs In Company’s Calculation of Lost Revenues**

Staff’s November 4, 2004 comments provide a succinct description of the Staff’s review of the Company’s methodology. The Staff’s analysis of the Company’s methodology and Staff’s agreement with that methodology can best be described by direct reference to the relevant sections of Staff’s comments. Staff’s analysis underscores the fact that the methodology the Company used to calculate lost revenues is correct and should be approved by the Commission. In its comments Staff stated:

“In its Request for Authority to Accept Bids, Case No. IPC-E-01-3, filed with the Commission on March 7, 2001, the Company proposed a lost revenue component of 5.2 cents per purchased kWh or 100% of the per kWh revenue that would have been generated absent the buyback program. The Company stated ‘without inclusion of the reduced revenues in the PCA mechanism, the benefits derived

from the program are not evenly distributed and can become detriments to the Company'." (Comments of Commission Staff dated November 4, 2004, p. 4.)

Later in its comments the Staff stated: "In comments filed on March 12, 2001, in Case No. IPC-E-01-3, Staff stated that while it did not necessarily disagree with the methodology used to estimate the relative impact of the program, it did not agree with the Company's lost revenue proposal. Based on its calculations, Staff agreed that allowing some lost revenue recovery would make the Company no worse off with the Irrigation Load Reduction Program than it would have been without it. Staff also stated that it believed there was uncertainty in measuring energy reduction due solely to this Program. While Staff believed it difficult to quantify the effect on lost revenues of factors such as 'free riders' (reduction in irrigation energy consumption that would have occurred anyway) and offsetting new customer growth, it [*sic*, Staff] believed that these issues provided further justification for allowing only a portion of the lost revenue to be recovered. Staff again stated 'proper recovery is an amount that would make the Company revenue neutral'." (Comments of Commission Staff dated November 4, 2004, p. 4.)

Commenting further, Staff stated: "On September 27, 2001, Idaho Power met with the Commission Staff and other parties and interested individuals to discuss the reduced revenue issue. Idaho Power presented a proposed lost revenue calculation that included the recovery of energy and demand related revenues associated with irrigation kWh's bought back. The Company reduced this initial calculation by 1.684 cents/kWh to account for a credit already incorporated in the PCA when actual energy sales are reduced. This prevents a double counting of this portion

of lost revenue. During the meeting the Company also agreed to reduce lost revenue by the cost of losses that it does not incur when it buys energy back. Average delivery losses are 10.8 percent of delivered energy for irrigation customers taking service at the secondary voltage level.” (Comments of Commission Staff dated November 4, 2004, p. 4.)

Staff went on to state: “In comments filed on November 30, 2001 supporting the modified lost revenue calculation, Staff stated:

‘It is Staff’s position that these adjustments along with the 10 % PCA sharing reduction in all of the costs of the program prevent any “enrichment” to the Company as a result of proposed Commission approval of lost revenue recovery. The 90/10 sharing adjustment also addresses, in a general way, concerns that the Staff expressed about free riders in its previous comments. The fact that 10 % of program costs will not be passed back to ratepayers provides increased assurance that free riders would not cause the program to be uneconomic’.”

(Comments of Commission Staff dated November 4, 2004, p. 5.)

In conclusion, Staff stated: “Staff has again reviewed the various adjustments incorporated in the calculation methodology and continues to believe that the methodology developed through workshops and proposed by Company witness Brilz is the appropriate method to calculate lost revenue. The calculated lost revenue resulting from the methodology is approximately 60% of that proposed by the Company in its original filing. The methodology includes adjustments for a PCA credit when actual energy sales are reduced and reduced transmission losses associated with reduced energy consumption. In addition, the revenue losses are jurisdictionally allocated and shared by Idaho Power shareholders through the PCA assuring fair treatment of customers and stockholders. However, Staff continues to maintain that the

Irrigation Load Reduction Program is different than traditional demand side management (DSM) or conservation programs because the actual energy savings associated with the program are discretely tied to actual kWh's purchased. In addition, the energy savings produced by this program occur in a single year at a set price based upon the irrigation customer's bid. Because the energy reductions occur in a single year, such reductions are not subject to a true-up as is the case with long-term energy reductions associated with traditional DSM and conservation programs. See Staff Comments at 4 (Nov. 30, 2001)." (Comments of Commission Staff dated November 4, 2004, p. 5.)

**B. Interest During Pendency of Appeal**

While agreeing with the Company's calculation of lost revenue in the amount of \$11,587,179 and the calculation of interest in the amount of \$428,008 through March 2002, Staff's comments at that point clearly diverge from the Company's position on interest cost recovery. Staff does not believe that carrying charges amounting to \$1,506,333<sup>1</sup> for the period April 2002 to June 2004 are appropriate. Staff bases that belief on a misunderstanding of the Company's position. At the time the Company requested an Order to assure recovery in the event of a successful appeal, the Company stated that it was no longer calculating interest. The reason for this discontinuance was due to the fact that under financial accounting requirements, the calculation of carrying charges would not be appropriate because the Company did not have an order which would authorize the booking of that interest. While the accounting rules required discontinuance of the booking of interest, there should be no misunderstanding of the

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<sup>1</sup> All interest calculations contained in the Company's Comments have been computed at the rate of 6%.

Company's position. The Company did *not* waive its right to recover carrying charges during the pendency of the appeal if it were successful. Staff misconstrued the Company's statement that it was no longer calculating interest during the pendency of the appeal to mean it was agreeing to forego interest even if the Company was successful on appeal. Staff, in effect, has imposed a penalty upon the Company for appealing the Commission's order. During the pendency of this appeal before the Idaho Supreme Court, Staff would, in effect, require that the Company finance the appeal in its entirety by not permitting the recovery of any interest as the result of the remand by the Idaho Supreme Court. The Company does not believe that Staff's position is fair or reasonable, and the Commission should allow the recovery of interest in the amount of \$1,506,333 while this matter was pending on appeal.

In summary, Staff's recommendation (with the exception of the Staff's disallowance of carrying charges in the amount of \$1,506,333 for the period April 2002 to June 2004) should be accepted by the Commission. Staff is the only party that has conducted an in-depth investigation, complete with audit, as well as an in-depth analysis of the Company's calculation of lost revenue.

### **IRRIGATORS' COMMENTS**

#### **A. Irrigators Ignore the Fact that the Amount of Load Reduction Was Known At the Outset.**

Before discussing the various points raised by the Irrigators in their critique of the Company's methodology, it is important to point out a fatal flaw contained in the Irrigators' comments as to the calculation of lost revenue. While apparently recognizing that the Company's Irrigation Load Reduction Program was based on

individual contracts with particular identifiable customers, the Irrigators ignore the effect of this important and critical fact upon the Company's calculation of lost revenue. Lost in the Irrigators' critique is the fact that the Load Reduction Program was, for the 2001 irrigation season, based upon individual contracts with particular identifiable irrigators under which the irrigators agreed to reduce their individual irrigation loads and such reductions were quantified based upon the individual irrigator's power consumption in the immediate past. This was not a reduction of power by the irrigation class *per se*, but reductions in power consumption as a result of individual agreements with identified customers. The composite effect of those agreements gave rise to the pre-identified load reduction that the Company, the Commission, and the Company's customers (including the Irrigators) agreed would occur as a result of the Load Reduction Program.

The Irrigators' contention that the Company had no idea what effect the Load Reduction Program would have on the Company's energy consumption is an inaccurate portrayal of that Program. The Company's calculations of reduced electrical consumption and resulting reduction in revenues were based on pre-identified contracts with individual customers for the 2001 irrigation season. The Company's direct payments (which had already been allowed by the Commission) were based upon the irrigator-specific reductions which the Company used to calculate the Company's lost revenue. The Irrigators in their comments critiquing the Company's methodology have either forgotten this important element or seriously misunderstand the very basis upon which the Company's lost revenue was calculated, i.e., the Company had separate contracts with particular customers that specified the reduction in energy that the customers participating in the Load Reduction Program would create. This was not a

Load Reduction Program based on unknown reductions of energy consumption for the entire irrigation class as is implied in the Irrigators' comments.

**B. Use of 2000 Demand Data To Compute Lost Revenue is Correct**

The Irrigators first object to the Company's use of 2000 demand data to compute the lost revenue attributable to lost demand charges. The Irrigators claim if a five-year average were used, the lost revenue attributable to demand charges would be less. Since the five-year average is less than the 2000 amount, this is the mathematical result. The Company receives less revenue. However, the procedure to be utilized to compute lost revenue should not be the one that results in the lowest amount, but should be a procedure that provides the most accurate calculation. As has been previously pointed out in the Company's December 28, 2001 comments filed with the Commission, first and foremost -- unlike energy usage, irrigation demand is not weather sensitive. If an irrigation pump is operated for one hour during a month or 720 hours during a month, the peak demand will be the same; however, energy usage would vary significantly. In the short run, demand has no correlation with energy.

As previously discussed, the Irrigators fail to appreciate the fact that the demand component of the Company's calculation of lost revenue is not based on class data. While the Company does not agree with the Irrigators' conclusions based on class data, those disagreements do not need to be addressed as this is not an analysis based on the irrigation class. For the majority of participants in the voluntary Irrigation Load Reduction Program, the five-year average demand on a month-by-month basis will be the same as the 2000 demand on a month-by-month basis simply due to the fact that the peak demand for a pump is consistent from year to year. However, a five-year

average was not utilized to compute the base energy amount for all customers participating in the Program. As detailed in the Request for Proposals issued to irrigation customers on February 16, 2001, the average kWh consumption at each metered service point during the immediately preceding five years was used to compute the base consumption amount for each customer *unless* a change in pumping horsepower at a metered service point was demonstrated by the customer desiring to participate in the Irrigation Load Reduction Program. The base energy amount for customers participating in the Irrigation Load Reduction Program whose billing records demonstrated a change in their pumping horsepower during the five-year historical period was calculated using the energy consumption for the 2000 growing season or, at the Company's discretion, the period of time consistent with the revised horsepower. Again, in these situations, the average of the demand on a month-by-month basis over the number of years used to compute the base energy amount would be the same as the 2000 month-by-month demand; however, due to the increase in pumping horsepower during the five-year period, a five-year average demand would be less than the 2000 demand. Using a five-year average demand as urged by the Irrigators would cause a mismatch between the data used to calculate the base energy usage and the data used to calculate the demand component. Utilizing a five-year average to calculate the demand component would not be consistent with the methodology used to compute the base energy amount and would unfairly penalize the Company by understating the amount of reduced revenue which could be recovered through the PCA.

Second, the Irrigators assume that the energy and demand components of irrigation usage are relatively proportional. As pointed out earlier in these comments, the amount of energy consumed relative to demand is highly affected by the weather. Assuming that the percentage change in demand over a five-year period is equal to the percentage change in energy consumption is unfounded. Likewise, making an adjustment to the amount of reduced revenue based on this assumption is unsupportable.

Finally, the adjustment suggested by the Irrigators is based upon an inappropriate global approach to computing the reduced revenue demand component. As detailed in the direct testimony of Ms. Brilz (Brilz, Tr. at p. 19, IPC-E-01-03; Brilz, Di. at p. 5-6, IPC-E-01-34), the Company has proposed computing the demand component of reduced revenue on a customer-by-customer, month-by-month, and service point-by-service point basis. The Company's methodology, unlike the methodology proposed by the Irrigators, closely ties the calculation of the revenue impact with the actual behavior of each customer participating in the voluntary Irrigation Load Reduction Program.

Essentially, the Irrigators' recommendation that the Commission use five years of demand data rather than the year 2000 demand data is driven by a single rationale, i.e., because it results in a lower revenue amount.

**C. All "Energy" Revenues Must Be Included in the Lost Revenue Calculation.**

In their comments, the Irrigators correctly state that for the summer months the energy rate used to compute lost revenues was 4.1831 cents per kilowatt-hour. This value came directly from the Company's tariff Schedule 24, Irrigation Service effective energy rate for the 2001 irrigation season, which became effective

May 1, 2001. The effective rate is the result of adding the base rate, 2.8416 cents per kilowatt-hour, and the PCA rate of 1.3415 cents per kilowatt-hour. The base rate was determined as part of a general rate case when irrigation rates were established to provide for recovery of the Company's revenue requirement for that class under normalized conditions, i.e. normal water, normal market prices, normal loads, etc. The PCA rate was determined as part of a PCA rate case wherein the one-year change in revenue requirement due to changes in variable power supply expenses incurred to serve all customers but adjusted to normal load conditions is determined. The change in revenue requirement by approved PCA methodology is spread to all classes on a uniform cents per kilowatt-hour basis.

As separate components of the effective rate, both the base rate and the PCA rate are in place to allow the Company to recover its revenue requirements (base and PCA) from all of its customers, including the Irrigation class. The Irrigators' comments suggest that lost revenues associated with a general revenue requirement are appropriate for recovery, but lost revenues associated with PCA revenue requirement are not appropriate for recovery. The Irrigators have confused the issue by attacking PCA methodologies that have been in place since 1992, implying that the PCA revenue requirement determined in 2001 was incorrect and therefore inappropriate for use in determining lost revenues. They suggest that PCA revenue requirement recovery is less certain than base revenue requirement recovery.

In reviewing the comments of the Irrigators as it applies to the energy component, it must again be emphasized that the Company's calculation of lost revenue is based upon individual contracts with particular identifiable irrigation

customers. When that important critical factor is taken into account when reviewing the Irrigators' comments, it becomes apparent the Irrigators' calculation of lost revenue is not correct. The Irrigators' comments assume the discussion should focus on the entire irrigation class, not a precise, identifiable subset of the irrigation class. The Irrigators' comments are nothing more than a critique of the PCA rate methodology, not a critique of Idaho Power's lost revenue calculations. As the Irrigators point out at Page 5 of their comments: "Case No. IPC-E-01-34 is not about setting a PCA rate, but is concerned with the establishment of lost revenues."

**D. The Forecast Portion of the PCA Must Be Included In the Lost Revenue Calculation.**

The Irrigators' contention that the forecast component should not be included in the lost revenue calculation ignores the fact that the forecast of power supply expenses was based upon the forecast of system power supply expenses, not a forecast of the power supply costs that a particular subset of the irrigation class would cause. The Irrigators ignore the fact that had the irrigation customers that participated in the Program consumed energy, they would have paid for that energy under a rate which included the entire PCA component. The power supply costs that are actually experienced are recognized in the true-up portion of the PCA. The PCA does not identify individual or class cost-causers or cost-relievers. No distinction is made for any class. During this period there was only one PCA rate that was in effect and applicable to all customer classes. By focusing on the forecast, while ignoring it has always been recognized the PCA forecast may overstate or understate power supply costs thus the need for a true-up, the Irrigators have misstated the reason and methodology for computing the PCA forecast.

The Irrigators also complain that the increased revenue will go to the Company's bottom line. Obviously, if the utility is required to absorb all costs, then it logically follows that if the utility is entitled to recover some of those costs, that recovery will have a positive effect on the utility's "bottom line." What the Irrigators fail to appreciate is that the revenues from the PCA forecast rate component are also normalized as a reduction to the normalized PCA expenses. The Irrigators would "normalize" power supply expenses and reduce those normalized expenses but replace the normalized revenues with a higher level. An obvious "heads I win, tails you lose" scenario to the detriment of Idaho Power.

Finally, the Irrigators point out that loads grew in spite of the significant reductions of load by the Irrigation Load Reduction Program. The Irrigators again fail to recognize that the PCA rate methodology does not identify cost-causers or cost-relievers. The PCA rate is for the recovery of power supply expenses by a uniform rate applicable to all customer classes. The changes in load are taken into account through the normalization process. In that process, revenues from the PCA forecast rate component are also normalized as a reduction to the normalized PCA expense, thus maintaining a consistent approach to normalized revenues and normalized expenses.

**E. The True-Up Portion of PCA Revenues Must Be Included In the Lost Revenue Calculation.**

While the above-stated arguments directly refute the Irrigators' comments on the forecast portion of the PCA, they are equally applicable to the Irrigators' comments concerning the PCA true-up component. Simply put, the Irrigators make the same error on both the forward-looking (forecast) and the backward-looking (true-up) components of the PCA.

While the Irrigators' comments urging reductions in the lost revenue calculation of Idaho Power must be rejected, their comments have provided a valuable contribution to these proceedings. Their comments have required the Company to provide additional clarification as to the Company's lost revenue calculations. While the Company, as pointed out by Staff's comments, is only receiving a portion of its lost revenue, providing assurance of this fact to the Company's customers is important. The Irrigators' participation in this proceeding has supplied the catalyst by which this additional assurance can be provided to the Company's customers.

### **INDUSTRIAL CUSTOMERS OF IDAHO POWER COMMENTS**

Unlike Staff and the Irrigators, the Industrial Customers in their filing provide no analysis or substantive comment on Idaho Power's calculation of lost revenue. Despite their "general opposition" to recovery of lost revenues, the Industrial Customers acknowledge that, by Supreme Court mandate, it is clear Idaho Power is to be allowed such recovery in this proceeding. The Industrial Customers then present, under the heading "Close Scrutiny Required", vague, broad, unsupported conclusory statements with no analysis or substantive comment and certainly no specific comment as to Idaho Power's calculation of lost revenue as requested by the Commission in its notice. The time for hyperbole is long past in this proceeding, and it is unfortunate the Industrial Customers have chosen to file comments of this nature.

### **SUMMARY**

Staff, as the result of an in-depth analysis, has agreed that Idaho Power's calculation of lost revenues in the amount of \$11,587,179.04 and interest in the amount

of \$428,008.18 through March 2002 is correct. Upon a thorough analysis and review of the Irrigators' comments, the Irrigators have underscored the conclusion that the Company's lost revenue calculation is correct. To that extent, the Irrigators have provided a valuable contribution to this proceeding. The Industrial Customers, other than acknowledging that Idaho Power is entitled to lost revenues in this proceeding, have made no other meaningful comments. The Company continues to believe that it is entitled to interest from the period April 1, 2002 through May 31, 2004, in the amount of \$1,506,333 contrary to Staff's position that no interest for that period should be allowed. In addition, there would obviously be interest in the amount of \$695,230 for the period June 2004 through May 2005, the date that Idaho Power will begin to receive back its lost revenues through the 2005 PCA.

### **ADDITIONAL HEARINGS**

The only party requesting hearings in this matter was the Industrial Customers, who provided no reason other than the desire to have additional hearings. The Company believes that additional hearings are not required in order to allow the Company to recover \$11,587,179.04 in lost revenues and interest in the amount of \$2,629,571.<sup>2</sup> If the Commission does not believe it can allow a \$11,587,179.04 recovery based on the Irrigators' comments, then the Company requests that the

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<sup>2</sup> Idaho Power requests that the Commission issue its order determining the amount of lost revenue prior to the end of 2004. As previously noted by the Commission in this proceeding in Order No. 29143 issued on November 6, 2002, the Company is required to follow General Accepted Accounting Principles (GAAP) before the Company may report any recovery of lost revenues in its financial statements. This requirement can only be satisfied by obtaining an appropriate order from the Commission authorizing the recovery of lost revenues. If that order is not issued until 2005, the Company will not be able to report any recovery in its financial statements until the year 2005.

Commission award the Company \$6,058,249 (the Irrigators recommended amount) with interest calculated on that allowance at six percent (6%) and set for hearing the additional amount in dispute between Staff and Idaho Power's calculation and the Irrigators' calculation.

DATED at Boise, Idaho, this 19th day of November, 2004.

  
LARRY D. RIPLEY  
Attorney for Idaho Power Company

**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that on this 19th day of November, 2004, I served a true and correct copy of the within and foregoing RESPONSE OF IDAHO POWER COMPANY TO FILED COMMENTS upon the following named parties by the method indicated below, and addressed to the following:

Donald L. Howell, II	<input checked="" type="checkbox"/>	Hand Delivered
Deputy Attorney General	<input type="checkbox"/>	U.S. Mail
Idaho Public Utilities Commission	<input type="checkbox"/>	Overnight Mail
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Randall C. Budge	<input type="checkbox"/>	Hand Delivered
Racine, Olson, Nye, Budge & Bailey	<input checked="" type="checkbox"/>	U.S. Mail
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Anthony Yankel	<input type="checkbox"/>	Hand Delivered
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