

Randall C. Budge
RACINE, OLSON, NYE, BUDGE &
BAILEY, CHARTERED
P.O. Box 1391; 201 E. Center Street
Pocatello, Idaho 83204-1391
Telephone: 208-232-6101
Fax: 208-232-6109
E-mail: rcb@racinelaw.net

RECEIVED
FILED
2004 NOV -5 AM 9: 21
IDAHO PUBLIC
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

These comments are being filed on behalf of the Idaho Irrigation Pumpers Association, Inc. (Irrigators) in response to Commission Order No. 29612. On June 8, 2004, the Idaho Supreme Court issued its amended remittitur in *Idaho Power v. Idaho PUC*, 140 Idaho 139, 90 P.3d 889 (2004). In this Decision, the Supreme Court set aside the Commission's decision in Orders Nos. 28992 and 29103 denying Idaho Power Company's request to recover the "lost revenue" associated with the Company's implementation of the Irrigation Load Reduction Program in 2001.

It should be pointed out at the outset that the Irrigators understand the Idaho Supreme Court's Opinion only applies to Idaho Power's Idaho jurisdiction. Neither the Idaho Supreme Court nor the Idaho PUC have jurisdiction over the rates in Oregon so any recovery of lost revenues in Oregon is not before the Commission. Likewise, Prairie Power was a separate jurisdiction of Idaho Power Company and not a subject of the Company's appeal of Commission Orders 288992 and 29103 to the Supreme Court. This is not to say that standard jurisdictional allocation factors do not apply, simply that the level of lost revenue in these other jurisdictions should not to be addressed here.

In most cases the Irrigators would argue that lost revenue is no more than a myth. The Company's request in this case for the recovery of lost revenue recovery is generally different than other cases where lost revenues are claimed to be associated with conservation programs. In this case, the reduced energy levels are far more quantifiable and isolated than they are in most conservation programs. For this reason, the Irrigators have supported the recovery of some level of lost revenues in this case only.

With respect to Irrigation Buy-Back Program of 2001, the Company originally claimed that it had \$15,146,639 of Lost Revenue on a system basis or \$11,587,179 on an Idaho Jurisdictional basis¹. The Irrigators have previously and continue to propose three adjustments that are needed to bring these values in line with revenues the Company actually lost, as opposed to turning this calculation into a windfall for the Company where it would collect more than the losses actually incurred. Additionally, as pointed out above, the starting point for these calculations is not the entire system lost revenue, but only the Idaho Jurisdictional lost revenue that was the subject of the Supreme Court Remand. The adjustments proposed by the Irrigators do not address any other adjustments that may be proposed by other parties that the Commission may find appropriate. The first adjustment proposed by the Irrigators deals with the demand component of the Irrigation rates and the other two deal with the energy component.

Adjustment to the Demand Component of Lost Revenue

The Company calculated the lost revenue associated with the demand component of the irrigation rate by multiplying the demand charge of \$3.58 per kW by the level of billed kW in 2000 for each metered service point included in the irrigation buy-back program. The problem with such an approach is that irrigation usage varies widely from year to year and just looking at the previous year's billed demands would not necessarily be reflective of any year in the future. This wide variation from year to year is even recognized by the Company in its development of the energy component it used to calculate lost revenues.

¹ Idaho Power calculated the Idaho Jurisdictional responsibility by multiplying its calculated total Company figure by 90% in order to reflect the PCA savings mechanism and by an additional 85% in order to reflect the Idaho Jurisdiction's allocated share of System energy costs.

The energy component of the lost revenues was established by the Company taking a 5-year average of the energy usage for each of these irrigators. This 5-year average greatly reduced the calculated reduction in usage (benefit) of the Irrigation Buy-Back Program over 2000 levels and thus greatly reduced the amount of payment to Irrigators. In contrast to this, the Company is proposing to only use the most recent year's data (2000) as an establishment of the demand component to be utilized in its calculation of lost revenue—money it will receive from its customers. Use of only 2000 demand data creates a mismatch between how the energy and demand components are calculated. Further, using only the 2000 data (as opposed to the average of the past five years) will inappropriately result in additional lost revenue being given to Idaho Power.

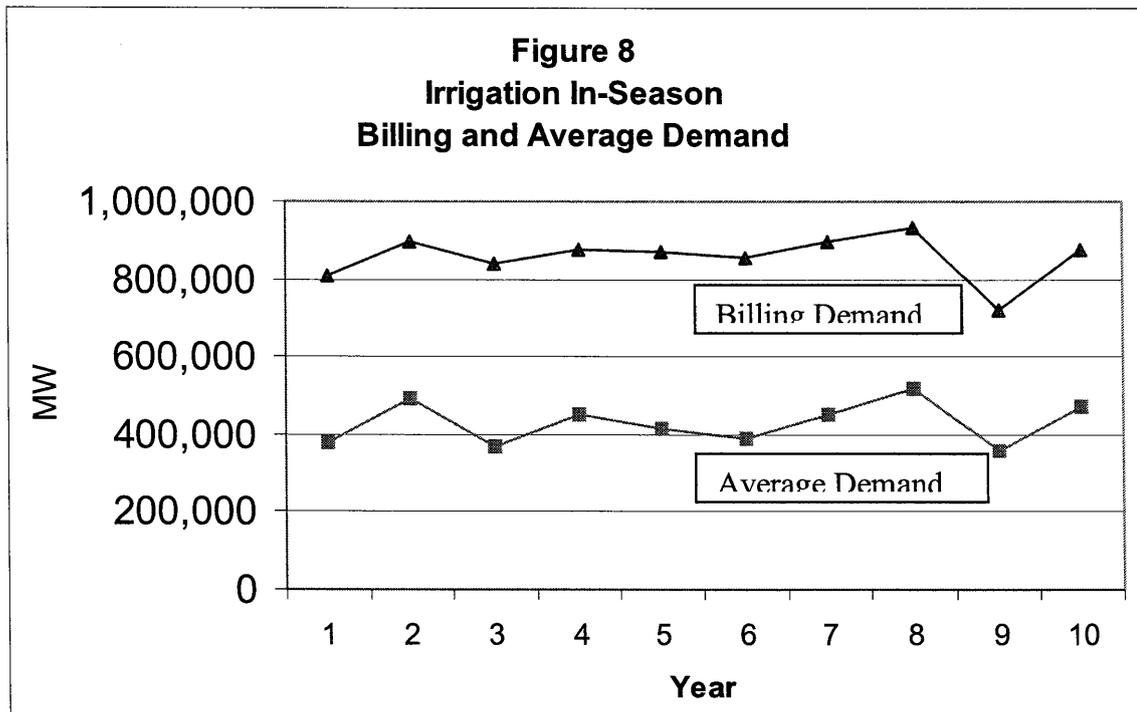
By only using 2000 demand data, Idaho Power assures itself of far more lost revenues associated with the demand component than it would have received if it had used a 5-year average as it had insisted upon for the calculation of the energy component when the program was established. This can be demonstrated in the following table, which lists the amount of total irrigation consumption for each of the five years prior to the 2001 buy-back program:

	<u>MWH x 1,000</u>
1996	1,683
1997	1,581
1998	1,465
1999	1,706
2000	<u>1,990</u>
Average energy	1,685

Clearly, Irrigation usage fluctuates widely from year to year. Assuming that energy and demand components of irrigation usage are relatively proportional, it can be calculated that the irrigation demand in the year 2000 was 18% higher ($1,990 / 1,685 = 1.18$) than the average of the past five years. Using only the demand from the year 2000 for

calculating the demand component of lost revenue would thus result in approximately an extra 18% being collected for this portion of the lost revenue.

Although the Company could contend that Irrigation billing demand and the average annual Irrigation energy usage between years may not be proportional, there is indeed a very high level of correlation. As can be seen from Figure 8 that appeared on page 35 of Mr. Yankel's direct testimony in Idaho Power's recent Case No IPC-E-03-13, Irrigation in-season billing demand and average demand (energy) are extremely well coordinated, with an increase or decrease in one component being reflected in the other.



The Company is claiming Loss Revenue of \$3,142,835 associated with demand charges in its Idaho Jurisdiction² based upon only using 2000 data. If this figure was brought down to a 5-year average demand level, it would be \$2,661,145 ($\$3,275,872 \times 1,685 / 1,990 = \$2,661,145$), which translates into a reduction in the Company's request for lost revenue of \$481,691.

² On a total System basis, the Company claimed \$3,275,872 associated with demand charges in all three of its operating jurisdictions.

Adjustments to the Energy Component of Lost Revenue

The Company's calculation of the energy component of lost revenue includes the full energy rate that an irrigation customer would face had he been taking service and not participated in the buy-back program. This consists of three sub-components. For the summer months these sub-components and the associated prices were as follows:

	<u>Cents/kWh</u>
Basic Tariff Rate	2.8416
PCA Forecast Rate	0.3861
True-up Rate	<u>0.9554</u>
Total	4.1831

Of these three sub-components, only the Basic Tariff Rate is appropriate for inclusion in the lost revenue calculation. The Basic Tariff Rate includes coverage for many of the fixed costs that the Company faces. The establishment of the Irrigation Buy-Back Program does not reduce these fixed costs and thus, the revenue collected under the Basic Tariff Rate should be maintained.

There are three ways of looking at the PCA Forecast Rate, each of which dictates that this amount should not be considered as a component of lost revenue. First, the PCA Forecast Rate is reflective of "anticipated" power supply costs³. The PCA Forecast Rate is equal to 90% of the difference between the projected power cost and the base power costs that were established in the previous general rate case⁴. The PCA Forecast Rate was calculated assuming that normalized loads (including normalized irrigation load) would need to be supplied.

Case No. IPC-E-01-34 is not about setting a PCA rate, but is concerned with the establishment of lost revenues. The fact is that the irrigation buy-back program reduced the irrigation load and thus, the associated power costs were not incurred. If

³ As determined in the May 1, 2001 PCA Order, power costs were anticipated to be higher than those originally calculated in the previous rate case.

⁴ These costs are based upon a normalized 1993 load that had been adjusted to reflect 1998 changes in the FMC contract.

these higher costs were not going to be incurred because of the irrigation buy-back program, then it is inappropriate to assign the PCA Forecast Rate to cover this usage that did not occur. Thus, the PCA Forecast Rate should not be treated as a contributing component to lost revenue.

The second reason why the inclusion of the PCA Forecast Rate into a lost revenue calculation is inappropriate is because these additional funds would go to the Company's bottom line and not as an off-set to the Company's PCA costs as the PCA Forecast Rate is designed to do. The PCA worksheet that has been in existence (with minor changes) since the PCA mechanism was established, is used to define the True-up required in succeeding years by off-setting the previous year's PCA revenues and expenses. Whether right or wrong, the historical PCA revenues have been simply defined as normalized load times the PCA Forecast Rate that was in place. Under this definition, there is no opportunity to include any actual impact of the lost revenue calculation made in this case. To give the Company lost revenues associated with the PCA Forecast Rate in this case would result in additional revenues that would simply go to the Company's bottom line as there is no mechanism to address this increased revenue as a PCA cost off-set in the next PCA case.

The third reason why the inclusion of the PCA Forecast Rate into a lost revenue calculation is inappropriate is because the historic calculation of PCA revenues does not fully reflect the PCA Forecast Rate revenues that have already been collected. Company workpapers reflect the fact that during the irrigation season a substantial amount of load was actually served above the "normalized load" used to calculate the PCA Forecast Rate. Thus, in spite of the significant reductions of load by the irrigation buy-back program, the Company is still going to collect far more PCA Forecast Rate revenue during the irrigation season than what can be anticipated to be recorded under "normalized loads". Any additional PCA Forecast Rate revenue will just be a further windfall for the Company.

For similar reasons, it is inappropriate to include the PCA True-up component in the calculation of lost revenues. As with the PCA Forecast Rate, the appropriateness of lost revenue with the PCA true-up rate can be viewed from three different perspectives. First, the PCA true-up rate is calculated on the basis of the difference

between the forecasted costs and the actual costs for the previous year, divided by a fixed energy amount. The PCA true-up rate is simply a rate at which funds will be collected (or reduced), and without guaranteeing any total outcome. There is no true-up of the true-up nor is there any attempt to increase or decrease the true-up rate during mid-year in order to adjust for higher or lower collections than originally calculated. As such, there is no lost revenue associated with the lack of collecting the PCA true-up rate from irrigators in the buy-back program, because there was never a guarantee that this money would ever be there. The Commission's May 1, 2001 Order in the PCA case that was current during the Irrigation Buy-Back Program exemplifies this point:

The Commission finds it appropriate to adopt the Staff and Company proposal to use normalized 1999 kWh for 12 and one-half months (13,253,976 MWh) to calculate this year's true-up PCA rate. If the Company sells this amount of electricity, as it expects to, the Company will recover all of its true-up costs.⁵

The second reason why the inclusion of the PCA true-up rate into a lost revenue calculation is inappropriate is to once again recognize that these additional funds would go to the Company's bottom line and not as an offset to the Company's PCA costs. Whether right or wrong, historically the PCA true-up rates have been simply defined as the balance in the PCA account from the previous year, divided by a normalized load. Under this definition, there is no opportunity to include the actual impact of the reduced revenue associated with the reduction from the Irrigation Buy-Back Program as there is no room to include additional revenues from increased sales. A separate calculation has been proposed by the Company in this case (for the purpose of calculating lost revenue) that ignores the way increases and decreases in loads are handled in the PCA and would merely represent a separate mechanism to address only one aspect of usage change in order to add to the Company's bottom line.

As pointed out above, the simple calculation proposed in this case by the Company to include the PCA true-up revenues associated with the irrigation buy-back program does not address the total PCA true-up rate revenues that were actually collected. Company documents reflect the fact that during the irrigation season there already exists a substantial amount of load that was actually served above the

⁵ Page 8 of Commission Order No. 28722.

normalized 1999 load that was used to originally derive the level of the PCA true-up rate. Thus, in spite of the significant reductions of load by the Irrigation Buy-Back Program, the Company is still going to collect far more PCA true-up revenue during the irrigation season than is needed to balance out the previous year's costs. Any additional PCA true-up rate revenue will just be a further windfall for the Company. Adding yet additional PCA true-up rate revenue as a part of a lost revenue calculation will further exacerbate this situation.

Company's request for Lost Revenue includes a total of \$6,106,071 associated with the PCA rate as well as the PCA true-up. The Company's request for lost revenue should be reduced by this amount.

Summary

The Irrigators propose three adjustments to the Company's request for lost revenues associated with the Irrigation Buy-Back program in its Idaho Jurisdiction. The Irrigators have not reviewed other adjustments that may be proposed by other parties and therefore do not assume that these adjustments are the only ones that the Commission should make. The adjustments proposed by the Irrigators are necessary to insure that the Company recovers only its lost revenues authorized by the Supreme Court, while insuring that it does not realize a windfall associated with the program. A listing of the Irrigator proposed adjustments to the Company's lost revenue calculation on a total Company basis is as follow:

Company's calculation ⁶	\$15,146,639
Less PCA components	- 6,106,071
Less Demand component	<u>- 481,691</u>
Less Non-Jurisdictional	<u>- 639,597</u>
	\$7,919,280

⁶ Company's calculation takes a total revenue deficit of \$24,463,290 and reduces it by \$9,316,650 in order to reflect Load Offset revenues of \$0.01684 per kWh.

The following allocations are needed in order to place this overall adjustment on an Idaho jurisdictional basis and in order to reflect the ratepayers' portion of these costs:

Total adjustment	\$7,919,280
Ratepayer's share	<u> </u> x .90
	\$7,127,352
Idaho share	<u> </u> x .85
	\$6,058,249

RESPECTFULLY SUBMITTED this 4th day of November, 2004.

RACINE, OLSON, NYE, BUDGE &
BAILEY, CHARTERED

By Randall C. Budge
RANDALL C. BUDGE

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 4th day of November, 2004, I mailed a true and complete copy of the foregoing document, postage prepaid, to each of the following:

Jean Jewell, Secretary (Original and 7)
Idaho Public Utilities Commission
P.O. Box 83720
Boise, Idaho 83720-0074

Larry Ripley
Maggie Brilz
Idaho Power Company
P.O. Box 70
Boise, Idaho 83707-0070



RANDALL C. BUDGE