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IDAHO PUBLIC
UTILITIES COMMISSION

DONALD L. HOWELL, II
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0312
IDAHO BAR NO. 3366

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5983

Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

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

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Donald L. Howell II, Deputy Attorney General, and submits the following comments in response to Order No. 29612 and the Notice of Modified Procedure issued in this case on October 15, 2004.

On June 8, 2004, the Idaho Supreme Court issued its amended remittitur in *Idaho Power Company v. Idaho PUC*, 140 Idaho 139, 90 P.3d 889 (2004). In its Opinion, the Supreme Court set aside the Commission's decision in Order 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. Lost revenue represents a calculated amount of revenue the Company might have received from the sale of power to irrigation customers if the Load Reduction Program had not been in operation. Order No. 29103 at 1. On remand, the Commission has solicited additional comments from the parties and interested persons regarding the calculation of the lost revenue.

BACKGROUND

A. The Irrigation Load Reduction Program

During the energy crisis of 2000-2001, Idaho was faced with two unique conditions: the second worst drought on record and extremely high wholesale power costs. The drought forced Idaho Power to purchase large amounts of high-cost power to meet its load requirements. In an effort to reduce electric consumption and the purchase of wholesale power, the Company initiated the Irrigation Load Reduction Program. This Program was designed to provide monetary incentives to large irrigation customers to reduce their electric consumption during the summer of 2001. Order No. 29103 at 1-2. Under the Program Idaho Power would make payments to irrigation customers that committed to reduce their energy consumption by at least 100,000 kWh. Order No. 28699, Case No. IPC-E-01-3. The Company proposed a maximum purchase price of 15 cents per kWh and a reduced revenue component of 5.2 cents per kWh for a total cost of 20.2 cents for each kilowatt-hour purchased under the buy-back program.

In May 2001 the Commission issued Order No. 28699 authorizing Idaho Power to implement the Program. The Commission's Order stated that the "direct costs and lost revenue impacts of this Program may be treated as a purchased power expense" in the Company's Power Cost Adjustment (PCA) mechanism. The Commission intended for the Company to track or account for the direct costs (payments to irrigators) and the lost revenue separately until the Company filed a later Application seeking authority to recover these amounts. The Commission sought to preserve judgment on the recovery of lost revenue until the subsequent case. The Order also directed Idaho Power and the parties to develop and present to the Commission a procedure for calculating the amount of lost revenue if recovery was permitted in the 2002 PCA case. *Id.* at 12.

In September 2001 Idaho Power met with all the parties in the 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.

Although the Irrigation Load Reduction Program operated until the end of November 2001, the Company in October 2001 filed an Application requesting the Commission issue an Order authorizing the recovery of the direct costs and lost revenue in the 2002-2003 PCA year. Case No. IPC-E-01-34. In its Application, the Company reported its direct costs and proposed lost revenues as of September 30, 2001 and indicated it would provide a subsequent report with end-of-program results. Application at 4. The Application included the prefiled testimony of the Company's Director of Pricing, Maggie Brilz. Her testimony explained the Company's proposed three-part methodology for computing the lost revenue.

B. The Company's Proposed Methodology for Lost Revenue

Ms. Brilz explained that the methodology has three components: (1) the energy component; (2) the demand component; and (3) the load reduction offset and loss components. First, the energy component represents the measured reduction in revenue associated with the kilowatt hours (kWh) bid into the Irrigation Load Reduction Program. The energy component is calculated by multiplying the kWh of reduced energy by the tariffed energy rate applicable for the specific billing period. Brilz at 5. Second, the demand component is the reduced revenue associated with the reduction in billed kW relating to the in-season billing periods of June through September 2001. This is the period during which the irrigation demand charge is imposed. "Because the billed kW is directly related to the installed horsepower at each metered service point, the basis for the computation is the difference between the billed kW for the billing period this year [(2001)] compared to the billed kW for the same billing period last year [(2000)]." *Id.* at 5-6. The demand component is then computed by multiplying the difference in billed kW between the two years by the demand charge.

Third, the load reduction offset and loss components eliminate a potential double accounting of reduced revenues associated with the load change that is embedded in the PCA methodology and accounts for delivery losses. The rate for load change adjustment within the PCA was 1.684 cents per kWh. This component also includes an adjustment for delivery losses not incurred on the buy-back energy. This delivery loss is calculated at the generation level rather than at the customer, or meter level. The Company utilized a loss factor of 10.8%. *Id.* at 6-7. Taken together, these two offsets are calculated by multiplying the kWh of energy reduction for which customers received payment by 1.108 to adjust for the 10.8% loss, and then by 1.684 cents per kWh.

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. *Id.* at 12-13.

STAFF REVIEW

In it's 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 also 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".

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 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."

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 kWhs bought back. The Company reduced this initial calculation by 1.684 ¢/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.

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.

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 kWhs 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).

Based upon the unique set of circumstances arising in this case, the Staff recommends that the Commission allow Idaho Power to recover lost revenues based upon the proposed methodology. Staff believes the methodology is reasonable and appears to capture all the relevant costs and cost offsets associated with the program. Staff has audited the lost revenue accounts and applied the proposed calculation method to the energy and capacity savings produced by the program. Staff calculates the amount of lost revenue that should be recovered from Idaho ratepayers to be $11,587,179, the same amount requested by Idaho Power.

In addition to the amount for lost revenues, Idaho Power requests to recover $428,008 for carrying charges attributed to the program until March 2002, the end of the PCA deferral period. Interest was calculated using the same method approved for other PCA items, at the then current authorized rate of 6%. Staff believes that carrying charges are not appropriate for the period beyond March 2002 during the pendency of the appeal (April 2002 to June 2004). This is not an issue because the Company previously waived these carrying charges.

STAFF RECOMMENDATIONS

Staff proposes that lost revenue and carrying charges in the amount of $12,015,187 (Attachment A) be passed through to Idaho customers as part of the Company's 2005 PCA rate adjustment. Staff further proposes that this amount be added to the PCA deferral balance as a single adjustment at the end of the PCA calculation period following Commission approval. Due to the significant differences between the Irrigation Load Reduction Program and other DSM programs as well as the differences in power supply expense recovery methods among the various Idaho Electric Utilities, Staff also recommends that the Commission's Order find that awarding lost revenue using the proposed methodology is unique and only applicable to Idaho Power's Irrigation Load Reduction Program.

Respectfully submitted this day of November 2004.

Donna E. Walker for

Donald L. Howell, II
Deputy Attorney General

Technical Staff: Keith Hessing
Alden Holm

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STAFF LOST REVENUE CALCULATION
FOR IDAHO POWER COMPANY
CASE NO. IPC-E-01-34 ON REMAND

Line No.	Description	Amount ($)
1	Lost Revenue:	
2	Energy Revenue	21,187,418.09
3	Demand Revenue	3,275,871.50
	Sub-Total	24,463,289.59
4	Offsets:	
5	PCA Load Adjustment	(8,408,529.17)
6	Adjustment for Energy Losses Not Incurred	(908,121.15)
7	Sub-Total	(9,316,650.32)
8	Net Lost Revenue - Total Company	15,146,639.27
9	PCA Sharing at 90%	13,631,975.34
10	Idaho's Jurisdictional Share at 85%	11,587,179.04
11	Accumulated Interest Through March 2002	428,008.18
12	Total Lost Revenue w/Interest to be Recovered	12,015,187.22

ATTACHMENT A
CASE NO. IPC-E-01-34
STAFF COMMENTS
11/04/04

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 4TH DAY OF NOVEMBER 2004, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-01-34, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

LARRY D RIPLEY
SENIOR ATTORNEY
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070

MAGGIE BRILZ
DIRECTOR OF PRICING
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070

RANDALL C BUDGE
RACINE OLSON NYE ET AL
PO BOX 1391
POCATELLO ID 83204-1391

ANTHONY YANKEL
29814 LAKE RD
BAY VILLAGE OH 44140

CONLEY WARD
GIVENS PURSLEY LLP
PO BOX 2720
BOISE ID 83701-2720

ALAN W SEDER
ASTARIS LLC
622 EMERSON RD, 5TH FLOOR
ST LOUIS MO 63141

Jean D. Koch
SECRETARY