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IDAHO PUBLIC  
UTILITIES COMMISSION

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION )  
OF IDAHO POWER COMPANY FOR )  
AUTHORITY TO IMPLEMENT POWER COST )  
ADJUSTMENT RATES FOR ELECTRIC )  
SERVICE TO CUSTOMERS IN THE STATE )  
OF IDAHO FOR THE PERIOD MAY 16, )  
2003 THROUGH MAY 15, 2004. )  

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CASE NO. IPC-E-03-05

IDAHO POWER COMPANY

DIRECT TESTIMONY

OF

JOHN R. GALE

1 Q. Please state your name and business address.

2 A. My name is John R. Gale and my business  
3 address is 1221 West Idaho Street, Boise, Idaho.

4 Q. By whom are you employed and in what  
5 capacity?

6 A. I am employed by Idaho Power Company as Vice  
7 President of Regulatory Affairs.

8 Q. What is the purpose of your testimony in this  
9 proceeding?

10 A. I am describing a special adjustment to the  
11 2003/2004 PCA, which Mr. Said has included in this year's  
12 filing.

13 Q. What is the effect of the adjustment to Idaho  
14 retail customers in the 2003/2004 PCA?

15 A. The Idaho retail customers will receive an  
16 additional benefit in the amount of \$1,363,475.

17 Q. Have you prepared an exhibit to support your  
18 testimony?

19 A. Yes. I am sponsoring Exhibit No. 6, which is  
20 a three-page exhibit entitled 2003/2004 FERC Settlement PCA  
21 Adjustment.

22 Q. Why are you proposing an adjustment to the  
23 2003/2004 PCA?

24 A. A series of events related to the wind down  
25 of the marketing business at Idaho Power Company's affiliate

1 IDACORP Energy LLC (IDACORP Energy or IE) has led Idaho  
2 Power Company (Idaho Power or the Company) to conclude that  
3 certain ancillary services transactions between IE and Idaho  
4 Power should be revalued at this time. These types of  
5 transactions have traditionally been included in the PCA  
6 calculations.

7 Q. Please describe these events.

8 A. Following the western energy crisis of 2000  
9 and 2001 and the Enron collapse in late 2001, the energy  
10 marketing and trading sector underwent significant stress  
11 and turmoil. Many companies decided to exit the electricity  
12 trading sector in 2002. Idaho Power Company's parent  
13 company IDACORP, Inc. also came to this conclusion with  
14 regard to its subsidiary, IDACORP Energy. In the spring of  
15 2002, the decision was made to exit the electricity  
16 marketing and trading business. Idaho Power Company had  
17 previously entered into an Agreement for Electricity Supply  
18 Management Services (Supply Management Agreement) with IE.  
19 Under this agreement IDACORP Energy managed the system  
20 resources on Idaho Power's behalf under established transfer  
21 pricing mechanisms. After the decision was made to exit  
22 IDACORP Energy's electricity trading business, the  
23 management of the system resources migrated back to Idaho  
24 Power Company. By August 1, 2002, the real-time, day-ahead,  
25 and term transactions had all returned to the utility. On

1 March 17, 2003, Idaho Power filed with the FERC for  
2 termination of the Supply Management Agreement.

3           During the process of exiting the electricity  
4 trading business and ultimately terminating the relationship  
5 and the agreement with IE, Idaho Power discovered some  
6 deficiencies in filings with the Federal Energy Regulatory  
7 Commission (the FERC). The Company reported these  
8 shortcomings to the FERC in September of 2002 and issued a  
9 Securities Exchange Commission Report 8K Financial  
10 Disclosure at the same time. The FERC report stated among  
11 other things that prior approval was not sought for some  
12 ancillary services transactions between IDACORP Energy and  
13 the Company.

14           Since that time, the FERC, through its Enforcement  
15 Division of the Office of Market Oversight and  
16 Investigations, has proceeded with an investigation of Idaho  
17 Power's failure to file ancillary services agreements with  
18 IE that it is required to file under section 205 of the  
19 Federal Power Act. Although Idaho Power has not reached a  
20 final settlement with the FERC at the time this testimony  
21 was filed, the Company believes that settlement is imminent  
22 and desires to recognize the anticipated outcome of the  
23 ancillary services issue in this year's PCA.

24           Q.           Please be more specific.

1           A.       Contracts between IE and three entities -  
2 Montana Power Company (Montana Power), Tri-State Electric  
3 Cooperative (Tri-State), and Truckee Donner Public Utility  
4 District (Truckee Donner) - are at issue. The Montana Power  
5 transaction was for 30 MW of load following service from  
6 June 1, 2001 through December 31, 2002. The transactions  
7 with Tri-State were ten consecutive monthly agreements  
8 beginning in November 2001 for spinning reserves. Finally,  
9 the transaction with Truckee Donner was for 1.7 MW of  
10 spinning reserves for a 15-day period in August of 2002.

11           Q.       Why is there a PCA impact?

12           A.       Because Idaho Power failed to file ancillary  
13 services agreements between IE and the Company with the  
14 FERC, the remedy proposed to the FERC by Idaho Power and IE  
15 to resolve this shortcoming is to transfer all of the net  
16 revenues realized by IE on its transactions with these three  
17 parties back to Idaho Power. The Company has recorded these  
18 net revenues in FERC Account No. 447, which is a PCA  
19 account.

20           Q.       Where does the resolution of these ancillary  
21 service agreements stand today?

22           A.       For Tri-State and Truckee Donner, Idaho Power  
23 will file with the FERC for the requisite approval of  
24 agreements between Idaho Power and IE. Under the  
25 anticipated settlement, all of the net revenues obtained by

1 IE under its agreements with Tri-State and Truckee Donner  
2 are to be transferred to Idaho Power. For the Montana Power  
3 agreement, the proposed resolution is rescission of the prior  
4 assignment of this contract from Idaho Power to IE and an  
5 unwinding of the IE-Idaho Power transaction.

6 Q. Have you prepared an exhibit that details  
7 these calculations?

8 A. Yes, page 1 of the previously mentioned  
9 Exhibit 6 summarizes the PCA impacts, while pages 2 and 3  
10 provide the backup support.

11 Q. What is the pricing adjustment associated  
12 with the Tri-State transaction?

13 A. Idaho Power will realize the full value  
14 received by IE for the reserves sold to Tri-State. The  
15 total valuation of the capacity payments under the  
16 anticipated FERC settlement is \$933,165 for the ten-month  
17 period. \$316,037 had previously been paid by IE to Idaho  
18 Power, leaving a net settlement adjustment of \$617,128.

19 Q. What is the pricing adjustment associated  
20 with the Truckee Donner transaction?

21 A. In this particular transaction, Idaho Power  
22 realized the full value received by IE for the reserves.  
23 The total is \$5,730 for the 15-day period. This amount has  
24 previously been paid to Idaho Power, leaving no requirement  
25 for an additional adjustment.

1 Q. What is the pricing adjustment associated  
2 with the Montana Power load following agreement?

3 A. The proposed resolution of the Montana Power  
4 load following agreement is the rescission of Idaho Power's  
5 assignment of the Montana Power agreement to IE and the  
6 unwinding of the IE-Idaho Power transaction. The unwinding  
7 of this load following transaction requires the repricing of  
8 both capacity and energy. The total of the capacity  
9 payments under the anticipated FERC settlement is  
10 \$4,702,500. \$3,722,100 had previously been paid by IE to  
11 Idaho Power, leaving a net settlement adjustment of  
12 \$980,400. The unwinding also results in an additional  
13 amount due Idaho Power as a result of repricing the energy  
14 related to the load following. The energy sold to IE by  
15 Idaho Power had been previously priced according to the  
16 Supply Management Agreement. The calculations leading to  
17 the net energy component are on page 3 of Exhibit No. 6.  
18 The net result of unwinding the energy component is an  
19 additional settlement payment of \$184,791 from IDACORP  
20 Energy to Idaho Power.

21 Q. Are there any additional PCA changes related  
22 to the Supply Management Agreement between Idaho Power and  
23 IE?

24 A. Yes. The Supply Management Agreement has not  
25 been functional since August 1, 2002. Idaho Power is no

1 longer paying IE for supply management services, but instead  
2 has incurred all the expenses necessary to bring the trading  
3 activity back to the utility. Additionally, on March 17,  
4 2003 Idaho Power filed with the FERC to terminate the  
5 agreement. Accordingly, the ongoing payments from IE to IPC  
6 that are included in the PCA calculation are no longer  
7 applicable or appropriate and should be discontinued after  
8 April 1, 2003. Because the monthly value was recorded for  
9 PCA purposes through March of 2003, there will be no impact  
10 to the 2003/2004 PCA.

11 Q. How does the PCA adjustment relate to another  
12 Idaho Power Company docket that is presently open before  
13 this commission, Case No. IPC-E-01-16?

14 A. Case No. IPC-E-01-16 (the -16 Case) concerns  
15 the ongoing review of the relationship between IPC and IE.  
16 Some of the issues in that case have been settled and some  
17 have become moot as a result of termination of the  
18 relationship between the two entities. This commission in  
19 its Order No. 29102, issued on August 28, 2002 approved a  
20 partial settlement of this docket related to risk management  
21 and hedging issues and identified the key remaining issues.

22 "In regard to the other issues remaining in  
23 Case No. IPC-E-01-16, we direct the parties  
24 to identify and attempt to resolve what  
25 additional compensation is owed Idaho

1           Power's ratepayers for IE's use of the  
2           transmission system and other capital  
3           assets. The Commission is aware that  
4           IDACORP recently announced it was winding  
5           down the speculative electricity activities  
6           of IE and instead focusing on processing  
7           and transporting natural gas to wholesale  
8           gas customers. We direct the parties to  
9           identify and attempt to resolve any  
10          remaining transfer pricing issues that are  
11          not rendered moot by these changed  
12          circumstances." (Order No. 29102, pages 9  
13          and 10).

14          The ancillary services, described in the FERC  
15          settlement, address parts of the compensation envisioned by  
16          the -16 Case. It is an area of overlap between this  
17          commission's investigation and the FERC's investigation.  
18          The previously referenced quote from Order No. 29102  
19          indicates that there are other -16 Case issues still to be  
20          addressed, most notably related to transmission. The  
21          Company believes that once the FERC settlement is final, the  
22          remaining issues can be addressed expeditiously through the  
23          -16 Case docket.

24                 Q.           Please summarize your testimony.

1           A.       I am proposing that the anticipated FERC  
2 settlement amount for the ancillary services (including the  
3 energy repricing associated with the Montana Power  
4 agreement) be included in the 2003/2004 PCA. The total  
5 compensation due to Idaho Power from IDACORP Energy related  
6 to these three ancillary service agreements is \$5,826,186.  
7 Of this amount, \$4,043,866 had been previously paid to Idaho  
8 Power and tracked through the PCA. The remaining \$1,782,320  
9 was booked to Account 447 in March of 2003, based upon my  
10 recommendation at the time of this filing. The net  
11 additional value accruing to the Idaho retail customers as a  
12 result of the anticipated FERC settlement is \$1,363,475.

13           Also, the ongoing credit of \$166,667 per month to  
14 retail customers should cease as of April 1, 2003 in  
15 recognition that the Supply Management Agreement is no  
16 longer in place.

17           Q.       Does that conclude your testimony?

18           A.       Yes.

19