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IDAHO PUBLIC
UTILITIES COMMISSION

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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)
OF IDAHO POWER COMPANY FOR) CASE NO. IPC-E-03-05
AUTHORITY TO IMPLEMENT POWER COST)
ADJUSTMENT RATES FOR ELECTRIC) IDAHO POWER COMPANY'S
SERVICE TO CUSTOMERS IN THE STATE) REPLY COMMENTS
OF IDAHO FOR THE PERIOD MAY 16, 2003)
THROUGH MAY 15, 2004)
_____)

COMES NOW Idaho Power Company ("Idaho Power" or "Company"), by and through its Attorneys of record, and hereby replies to the comments of the Commission Staff ("Staff") and the Idaho Irrigation Pumpers Association, Inc. ("Irrigators").

BACKGROUND

On May 8, 2003, the Staff and the Irrigators submitted comments responding to the Company's application for authority to implement this year's Power Cost Adjustment (PCA). The comments can be divided into four distinct categories.

(1) The first category of comments are those based upon the traditional PCA audit function of the Staff. These comments by Staff relate to the examination of PCA accounting entries to verify that Idaho Power's entries were accurate and appropriately reflect the amounts contained in the FERC accounts that are tracked within the PCA.

(2) The second category of comments relate to potential adjustments to PCA computations based upon differences of opinion between Staff and Idaho Power with regard to how aspects of certain settlements and stipulations should be reflected within PCA computations.

(3) The third category consists of Staff's recommendations for process changes that could potentially reduce future PCA expenses and facilitate future PCA audits. These recommendations have no current PCA computational impact.

(4) The fourth category of comments relates to proposals by Staff and Irrigators proposal to change the currently approved PCA methodology.

CATEGORY ONE -- AUDIT ITEMS

With only one exception, the Staff's audit verifies that the accounting entries performed by Idaho Power were accurate and appropriately reflect the amounts to be tracked in the PCA.

The one exception is noted on Page 4 of Staff's comments. Staff identifies a missing payment from IE to Idaho Power relating to termination of an ancillary services contract with Montana Power. The Company agrees with Staff that this oversight did occur during the 2002/2003 PCA year and an adjustment is

appropriate. After jurisdictional and Company sharing, the impact of this adjustment would be \$38,370.32. Idaho Power is prepared to make this change.

CATEGORY TWO -- SETTLEMENT ITEMS

(1) Pricing of Real-Time Transactions Between IPC and IE.

On Page 3 of its comments, Staff correctly notes that Idaho Power voluntarily offered to finally resolve the remaining real-time pricing question at the FERC by presenting to FERC two alternative real-time pricing methodologies and agreeing to use the alternative that provided the more favorable real-time prices to its customers *over the life* of the now-terminated IE-IPC Agreement. The Company expects that the FERC will accept the Company's offer. The weighted-average method produced the more favorable results for our customers over the life of the IPC-IE agreement including the four months relevant to this year's PCA filing, April through July of 2002. That is why the Company originally proposed this methodology to both this Commission and the FERC. The Company used the weighted-average method to price real-time transactions in its voluntary pricing adjustment in last year's PCA filing and has continued to use that same method in this year's PCA.

In this PCA case, Staff recommends that the Commission accept three months of real-time pricing using the weighted-average method as proposed by the Company and recalculate the fourth month, July 2002, because in that one isolated month the Staff believes that the alternative high-low pricing method would show a customer advantage of \$50,242.47.

The Company has been consistent in its position before the FERC and this Commission that it is reasonable to use the most favorable methodology *when assessed over the entire time period*. It is not reasonable to use one method one month and a different method the next. In effect, Staff is requesting that for one month, during the entire time that the real-time transfer price was in effect, a different pricing method should be used. The cherry picking approach advocated by the Staff is arbitrary and should be rejected by the Commission.

(2) Double Transmission Payment.

On Page 6 of Staff's comments, Staff discusses \$428,625 of additional revenue it believes should be added to the PCA. The \$428,625 additional revenue is related to third-party transmission expenses associated with a contract where IE sold spinning reserves to Tri State Electric Cooperative ("Tri State"). IE has paid this \$428,625 amount to third party transmission providers in order to provide the spinning reserves to Tri State. Obviously, this third-party transmission cost was included in the price IE charged to Tri State and became part of the corresponding total revenues IE received. IE and IPC have proposed to the FERC that they flow through all of IE's profit from the IE-Tri State contract to Idaho Power and its customers. In order to properly determine the total actual profits received by IE, these out-of-pocket third-party transmission costs must be deducted from the total Tri State revenues. If this Commission adjusts the FERC settlement amount by the \$428,625 proposed by Staff, then the Company's shareholders will pay these third-party transmission costs twice. This is not a reasonable result and would constitute an additional IPUC penalty levied

prior to a full discussion of (1) the facts leading up to the FERC settlement, and (2) this Commission's authority to levy such an additional penalty.

(3) Departure From Approved 90/10 Split.

Also on Page 6 of its comments, Staff recommends the PCA sharing mechanism be altered as it is applied to the additional amount of compensation paid to Idaho Power by IE as a result of the anticipated FERC Settlement. Specifically, Staff proposes to return to the customers the 10 percent of benefits normally retained by the Company in such a PCA transaction. The reason given is that Idaho Power should not receive a financial benefit for its failure in its regulatory responsibilities. The fact is that the Company has not yet had its opportunity to discuss with this Commission the reason for the FERC determinations and the lack of impact on Idaho customers resulting from the Company's failure to file three contracts with FERC. It is premature to decide now if the Commission should (or legally can) impose an additional penalty for failure to file contracts with the FERC. Once the FERC determination is final, the Commission will have the ability to address the three contracts that were the basis for the settlement and determine if additional compensation is warranted in the context of Case No. IPC-E-01-16.

(4) Continuing Credit For IE Contract Benefits.

The Staff also took issue with the Company's proposal to end the \$2 million revenue credit being flowed through to Idaho retail customers as a realized customer benefit from the Agreement for Electricity Supply Management Services with IDACORP Energy ("IE Agreement"). The record in support of the Commission approved Stipulation that established the \$2 million revenue credit shows that the \$2

million amount was computed on the basis of estimates of cost savings that would accrue to Idaho Power as a result of the IE Agreement. Idaho Power agreed to recognize those cost savings immediately rather than waiting for a general rate case. Staff cites language from the stipulation that the credit would continue until new Idaho Power tariff rates were implemented as a result of the next general rate case. Of course, the stipulation was predicated on the presumption that the IE Agreement would still be operational at the time of the next general rate case. As we now know, that is not the case. A number of factors, including the complete collapse of the electric energy trading markets, created an impossible situation for IE and Idaho Power to continue under the Agreement. The IE Agreement has not been functionally operational since August 1, 2002 and the Company filed with the FERC to approve termination of the IE Agreement on March 17, 2003. Despite ending the IE relationship, Idaho Power continued to flow through the credit throughout the balance of the PCA year, August 1, 2002 to March 31, 2003. Idaho Power believes that now is the appropriate time to recognize the end of the relationship and its legacy ratemaking impacts.

**CATEGORY THREE -- RECOMMENDATIONS NOT
AFFECTING PCA COMPUTATION**

In their comments, Staff identifies several recommended changes to Company processes that have the potential to reduce future PCA expenses or improve the PCA audit process. These recommendations do not affect the computation of the current PCA. The first is the Staff's recommendation that the Company issue a Request For Proposals ("RFP") to solicit proposals for management of the Company's natural gas

transportation nomination and other natural gas fuel services associated with the Company's Danskin facility at Mountain Home. While the Company has not undertaken a formal RFP process in the past, it did compare types and levels of service available from potential service providers before finally choosing IGI Resources. While completing an RFP process involves expenditures of both time and money, the Company is willing to pursue Staff's recommendation to issue an RFP. Idaho Power will keep Staff advised as to the status of the RFP process as it runs its course.

The second Staff recommendation relates to providing additional documentation in the Risk Management Committee ("RMC") minutes to explain why certain hedge transactions are not completed in the same times and amounts as originally authorized. The Company concurs that it would be a relatively simple matter to make this documentation explicit in the RMC minutes.

Finally, the Commission Staff Consumer Division recommends that during this period of difficult economic times the Company encourage its customer service representatives to continue to work with customers to establish payment arrangements when customers call the utility stating that they are unable to pay bills in full. Staff also recommends Idaho Power provide customers with energy conservation information. Both of these recommendations are consistent with ongoing Company policy and practice and will continue to be a part of the Company's customer relations activities.

CATEGORY FOUR -- PROPOSED CHANGE TO PCA METHODOLOGY

Both the Staff and Irrigators propose that the Commission modify the methodology for establishing normalized energy loads used to compute the PCA true-up

rate. While the Company believes that the approved methodology it used in this filing has worked well over the life of the PCA, the Company agrees with the Irrigators' position that if the Commission determines that the methodology for computing the true-up rate should be re-evaluated for potential change, then a hearing is appropriate. The Company also believes that due process requires that any change in the approved methodology resulting from that hearing and related investigation should only be applied prospectively and not applied to compute the PCA in this proceeding.

The Approved Methodology

As the Irrigators have noted in their comments, "each party has its own version" of the creation and history of the PCA. (Irrigators Comments, p. 2.) While there may be differences of opinion as to history, there is no dispute among the parties that the Company's current filing is consistent with the 1993 normalized Idaho jurisdictional sales methodology previously approved by the Commission. Commission Staff acknowledges this on Page 11 of its comments, in referring to the Company's filings in 2001 and 2002 as "departing from the approved methodology," i.e. departing from the methodology used in the current filing.

The Company does not believe that Staff's characterizations of the historical use of normalized energy consumption utilized by the Commission for determination of the PCA true-up rate are entirely accurate.

In setting a historical context for the current PCA methodology, Staff's comments are incomplete in their characterization of the first eight years of PCA true-up computations. Specifically, in 1994 and 1995, the first two years with PCA true-up

determinations, the values used to determine the PCA true-up were based upon normalized system loads that were later determined to be inappropriate in PCA computations. *Idaho-specific* loads rather than system loads should have been used and *sales* level loads rather than load level loads should have been used. The impact of this error was that the Company undercollected the authorized true-up amount in both 1994 and 1995.

For the years 1996, 1997 and 1998, the Commission determined the PCA true-up component utilizing 1993 normalized Idaho jurisdictional sales of 10,750,796 MWh. All PCA computations and methodologies relate to 1993 because that was the “test year” on which the PCA was established. In 1999, as a result of a hearing to address modifications to the FMC contract, the Commission also modified the Idaho jurisdictional sales value to 10,802,636 for PCA true-up computations. This value was representative of a modified 1993 normalized level. This value was again utilized and accepted in 2000. It is clear that throughout this period of time, the Commission approved methodology for purposes of the true-up computation, was the 1993 normalized Idaho jurisdictional sales.

The Staff comments state that in 2001 and 2002, “the Company departed from approved methodology” when computing the true-up rate. (Staff comments, p. 11.) This statement does not accurately characterize the Company’s proposals in those two years. Rather, as Mr. Said has testified in this case, in both 2001 and 2002, the Company voluntarily offered to deviate from the Commission approved methodology in an effort to mitigate the impact of high true-up levels on the Company’s customers. (Said Direct Testimony, p. 13.) In 2001 and 2002 Staff recognized that the

Company's offer to deviate from Commission approved methodology harmed no party other than the Company and recommended Commission acceptance of the Company's offer.

Overcollection - Undercollection

Staff's comments on Page 12 state that if the Commission had not accepted the Company's offer to deviate from approved methodology, the Company would have overcollected the approved true-up amounts by approximately \$70 million. No evidence as to how the \$70 million figure was derived has been provided. The Irrigators' comments include an attachment that also shows an estimate of overcollection of true-up amounts in 2001 and 2002 if the approved methodology had been used. In its comments, the Irrigators suggest an estimate of overcollection for 2001 and 2002 at \$40 million (\$15 million in 2001 and \$25 million in 2002) if the Company had not offered a deviation from approved methodology.

In order to evaluate the overcollection estimations presented by the Staff and the Irrigators in their comments, the Company has also attempted to estimate the overcollection that might have occurred if the Company had not offered to deviate from the approved true-up computation methodology in 2001 and 2002. The Company's estimate is that the overcollection could have amounted to \$33 million. (If this hypothetical overcollection is an issue that the Commission intends to pursue further, it certainly appears that a separate proceeding to reconcile these three differing amounts would be necessary.)

However, the Company also estimated the *undercollection* that *actually* occurred in 2001 and 2002 as a result of deviating from the Commission approved methodology. Because actual sales levels during these years were below the levels offered by the Company for use in true-up rate computations, the Company estimates that it undercollected the authorized true-up amounts over the last two years by \$13 million. The Company has not requested that there should be a retroactive change to collect that amount, i.e., a true-up of the true-up, but the Company does believe it is appropriate for the Commission to recognize that the Company's offer to deviate from the approved methodology has harmed the Company and benefited its customers in each of the last two years.

The Irrigators' Contention That Idaho Power Has Overcollected Over the Life of the PCA Is Wrong

In an attachment to their comments, Irrigators argue that, over the life of the PCA, Idaho Power has overcollected nearly \$40 million. This is simply wrong. The Irrigators' support for this assertion is contained in an attachment to their comments. The spreadsheet attached to these comments as Attachment 1 is the Company's attempt to show the deficiencies of the Irrigators' analysis. The top half of Attachment 1 replicates the Irrigators' attachment. The bottom half shows the Company's attempt to correct for deficiencies in the analysis. Hopefully, having both analyses presented together will assist the Commission in evaluating the differences.

The first difference between the two analyses, as seen in the rows of the Attachment 1 analyses, is that the Irrigators did not include 1994. In Attachment 1 the Company has included 1994. The second difference, also seen in the rows, is that

Attachment 1 reflects two PCA rate adjustments in 2001, the first in May, the second in October. PCA rates in 2001 and 2002 differed within blocks for Residential customers in 2001 and PCA rates differed by class in 2002. The Company has attempted to capture these differences whereas the Irrigators did not.

Within the columns of the Company's Attachment 1 analyses, there are also some differences. The Irrigators show a constant Historic Normalized kWh that is not reflective of how PCA true-up rates were historically determined. The Company has replaced this column with kWh actually utilized by the Commission in the determination of PCA rates. As a result of the Irrigators using a constant "Historic Normalized kWh" they next show what the Company can only assume is a hypothetical "Target Normalized Revenue." The Company has replaced this column with the Commission approved true-up amounts.

For the column that Irrigators entitle "Actual kWh," it would appear that Irrigators utilized a January through December look at the Company's actual sales in kWh. In Attachment 1 the Company replaced these calendar year actuals with PCA rate period actuals typically from May 16th to May 15th of the following year. The Company's computation of Actual revenue differs from Irrigators primarily due to the more specific look at sales levels at the time the various PCA rates were actually in place.

As a result of the Company's correction of deficiencies in the Irrigators' analysis, it can be seen on Attachment 1 that, rather than the Irrigators' contention that the Company has overcollected nearly \$40 million above Commission approved PCA true-up amounts over the life of the PCA, the Company has actually undercollected

nearly \$15 million below Commission approved PCA true-up amounts over the life of the PCA. Thirteen million of that \$15 million undercollection has occurred in the last two years.

Changes To Methodology Should Be Applied Prospectively

As previously noted, in 1994 and 1995, the Company, in its 1996 PCA filing, notified the Commission that the wrong value had been erroneously utilized for PCA true-up purposes in each of the previous two years. The Company proposed a correction to the computations prospectively and also sought to have the ability to collect amounts that would have been collected had the correct sales level been utilized in computations. As stated in Order No. 26455 in Case No. IPC-E-96-05:

The Company not only proposes to correct the calculation for the 1995/1996 true-up, but to recapture the difference between the correct and incorrect calculation of the 1994/1995 true up. (Order No. 26455, p. 2.)

Staff and the Industrial Customers both agreed with a prospective correction of the error, but both opposed correction of past errors stating that such correction was retroactive ratemaking. A middle ground settlement solution was contemplated. Ultimately, the Commission found:

The Commission agrees that it is more appropriate and reasonable to calculate the true-up component of the PCA by dividing the deferred expense balance by the Idaho jurisdictional sales volume rather than the normalized system firm load. We find that the use of normalized system firm load in prior calculations has resulted in the Company under recovering approximately \$333,274 in the 1993-94 true-up and \$2,171,661 in the 1994-95 true up. We agree with the Company that both the utility and its customers should be treated with fairness by this Commission. We find that the alternative proposal, offered by way of settlement , to defer

implementation of the change in true-up methodology until next year's true-up presents a fair, just and equitable result. (Order No. 26455, p. 3.)

The Irrigators state that they accept the normalized sales values offered by the Company in each of the last two years. The Irrigators recognize that they have received benefits as a result of the Company's offer in each of the last two years. They would like a similar benefit this year, but would argue that if given the benefit, it should be even larger. They propose using 2002 normalized sales in the computations this year, but question whether the 2002 normalization as provided by the Company to the Staff and Irrigators is appropriate. Irrigators find the values "puzzling" because the values are 2% less than in 2000. The fact that the Irrigators desire to raise the question of the proper computation of normalized values highlights the very reason that the Commission, in approving the current methodology, established a fixed annual energy amount to utilize when computing the PCA true-up. The Commission intended the PCA filing evaluation to be primarily an audit function rather than a process that included re-establishment of facts. Moving to an annual revisiting of the annual energy amount will likely result in a much more complex and contentious PCA process.

The Company requests that the Commission reject the proposals of the Staff and Irrigators to change PCA true-up rate computations from the Commission approved methodology. The Company believes that only the Company has the right to propose a deviation from Commission approved methodology at those times when it is clear that only the Company is adversely impacted. Of course, the PCA true-up denominator is not the only PCA methodologic issue that may require attention. The Company has pointed out in its most recent filings that during the recent periods of

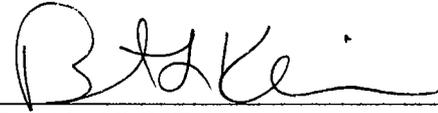
extreme market prices and resulting high true-up levels the Company is also adversely impacted by the fact that carrying charges are no longer computed once the true-up balance is reflected in rates. Such an interest free loan has been a significant benefit to customers at the expense of the Company.

In the end, picking and choosing methodologic changes during a PCA review period will almost always lead to an unfair, unjust, and inequitable result for some party. The Company demonstrated in each of the last two years a willingness to be fair with its customers. The reality is that the Company was damaged by its offer due to undercollection of approved true-up amounts. It is appropriate to now return to the Commission approved methodology to insure that the Company is not further damaged.

CONCLUSION

The Company has shown that, except for 2001 and 2002, over its ten-year life the PCA has been remarkably evenhanded in its treatment of customers and the Company. If the Commission desires to consider changes to the currently approved methodology, sound regulatory policy and legal due process would require that proposed changes in PCA methodology be addressed in a separate hearing established to evaluate various aspects of the PCA methodology and any changes should only be applied prospectively.

DATED this 12th day of May, 2003, in Boise, Idaho.

A handwritten signature in black ink, appearing to read 'B L Kline', written over a horizontal line.

BARTON L. KLINE
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 12th day of May, 2003, I served a true and correct copy of the within and foregoing IDAHO POWER COMPANY'S REPLY COMMENTS upon the following named parties by the method indicated below, and addressed to the following:

Lisa Nordstrom	<input checked="" type="checkbox"/>	Hand Delivered
Deputy Attorney General	<input type="checkbox"/>	U.S. Mail
Idaho Public Utilities Commission	<input type="checkbox"/>	Overnight Mail
472 W. Washington Street	<input type="checkbox"/>	FAX
P.O. Box 83720		
Boise, Idaho 83720-0074		

Randall C. Budge	<input type="checkbox"/>	Hand Delivered
Racine, Olson, Nye, Budge & Bailey	<input checked="" type="checkbox"/>	U.S. Mail
P.O. Box 1391	<input type="checkbox"/>	Overnight Mail
Pocatello, Idaho 83204-1391	<input checked="" type="checkbox"/>	FAX



BARTON L. KLINE

ATTACHMENT 1

	<u>True-up Rate</u> <u>Cents / kWh</u>	<u>Historic Normalized</u> <u>kWh</u>	<u>"Target" Normalized</u> <u>Revenue</u>	<u>Actual kWh</u>	<u>Actual Revenue</u>	<u>Over-collected Revenue</u>	<u>Cumulative Over-collected</u> <u>Revenue</u>
1995	0.0688	10,802,606,000	\$7,432,192.93	11366043600	\$7,833,598.00	\$401,405.07	\$401,405.07
1996	-0.0388	10,802,606,000	(\$4,191,411.13)	12399784764	(\$4,811,116.49)	(\$619,705.36)	(\$218,300.29)
1997	0.1077	10,802,606,000	\$11,634,406.66	12582354714	\$13,551,196.03	\$1,916,789.36	\$1,698,489.07
1998	0.1432	10,802,606,000	\$15,469,331.79	12677428525	\$18,154,077.65	\$2,684,745.86	\$4,383,234.93
1999	-0.1416	10,802,606,000	(\$15,296,490.10)	13064349051	(\$18,499,118.26)	(\$3,202,628.16)	\$1,180,606.77
2000	-0.0461	10,802,606,000	(\$4,980,001.37)	13880660727	(\$6,398,984.60)	(\$1,418,983.23)	(\$238,376.46)
2001	0.9554	10,802,606,000	\$103,208,097.72	12378818047	\$118,248,119.62	\$15,040,021.90	\$14,801,645.44
2002	1.7214	10,802,606,000	\$185,956,059.68	12258110222	\$211,011,109.36	\$25,055,049.68	\$39,856,695.11

	<u>Commission</u> <u>Approved</u> ⁽¹⁾ <u>Normalized kWh</u>	<u>Commission Approved</u> ⁽¹⁾ <u>True-up (\$)</u>	<u>Actual</u> ⁽²⁾ <u>kWh</u>	<u>Actual Revenue</u> ⁽³⁾	<u>Collected vs. Approved</u>	<u>Cumulative Total Difference</u>
May 16, 1994	0.0113	13,102,385,000	\$1,478,476.00	\$1,323,625.01	(\$152,850.99)	(\$152,850.99)
May 16, 1995	0.0688	13,900,443,000	\$9,561,993.00	\$8,051,564.11	(\$1,510,428.89)	(\$1,663,279.88)
May 16, 1996	-0.0388	10,750,796,000	(\$4,171,308.85)	(\$4,823,717.60)	(\$652,408.75)	(\$2,315,688.62)
May 16, 1997	0.1077	10,750,796,000	\$11,582,929.00	\$13,538,283.24	\$1,955,354.24	(\$360,334.38)
May 16, 1998	0.1432	10,750,796,000	\$15,472,377.00	\$18,413,253.32	\$2,940,876.32	\$2,580,541.94
May 16, 1999	-0.1416	10,802,636,000	(\$15,292,281.00)	(\$18,574,401.29)	(\$3,282,120.29)	(\$701,578.35)
May 16, 2000	-0.0461	10,802,636,000	(\$4,983,543.00)	(\$6,084,807.40)	(\$1,101,264.40)	(\$1,802,842.75)
May 1, 2001	see chart1	13,253,976,000	\$126,629,584.40	\$53,434,535.47	(\$73,195,028.93)	(\$74,997,871.68)
October 1, 2001	see chart2	13,253,976,000	\$30,535,467.50	\$96,014,165.01	\$65,478,697.51	(\$9,519,174.17)
May 16, 2002	see chart3	12,770,405,371	\$194,248,835.10	\$188,954,202.87	(\$5,294,632.23)	(\$14,813,806.40)

(1) "Approved" = As authorized/ordered by the Idaho Public Utilities Commission.

(2) Actual kWh sales from corresponding PCA-year.

(3) 2002 includes 1/2 month of estimated May 2003 revenues

Chart 1	Chart 2	Chart 3
<u>True-up Component of</u> PCA Rate	<u>True-up Component of</u> PCA Rate	<u>True-up Component of</u> PCA Rate
Schedule	Schedule	Schedule
1. Residential 1st Block	1. Residential 1st Block	7. Small Commercial
1. Residential 2nd Block	1. Residential 2nd Block	19. Industrial (7/02)
1. Residential 3rd Block	1. Residential 3rd Block	24. Irrigation
All other Classes	All other Classes	All other Classes
0.4188	0.8488	1.5085
1.2237	1.6537	1.5085
3.0725	3.0725	1.1259
0.9554	1.338	1.7214