

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
COMMISSIONER SMITH
COMMISSIONER HANSEN
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL**

FROM: LISA NORDSTROM

DATE: JANUARY 9, 2004

RE: IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR APPROVAL OF AN AGREEMENT WITH THE AMALGAMATED SUGAR COMPANY, LLC FOR THE SALE AND PURCHASE OF SURPLUS ELECTRIC ENERGY. CASE NO. IPC-E-03-10.

On September 2, 2003, Idaho Power Company (Idaho Power, Company) filed an Application requesting an Order that approves an Agreement for Sale and Purchase of Surplus Energy (Agreement) between the Company and the Amalgamated Sugar Company, LLC (TASCO). The Company filed an amended Application on November 10, 2003 that incorporated the original Application by reference and replaced the original Agreement attached as Exhibit 1 with a modified Agreement. The Company asked the Commission to declare that all payments for energy purchases made under this Agreement be allowed as prudently incurred expenses for ratemaking purposes.

BACKGROUND

Idaho Power provides electric service to TASCO's refined sugar production facility in Nampa, Idaho, under Schedule 19 to supplement TASCO's own on-site electric generation. During periods where it generates electricity in excess of its needs, TASCO sells its excess generation to Idaho Power.

The Commission has approved the sale and purchase of surplus energy between Idaho Power and TASCO in the past. In Order No. 27885 issued in Case No. IPC-E-98-15 on January 22, 1999, the Commission approved an agreement for the sale and purchase of surplus electric energy from TASCO at market-based prices. The Commission approved modification of this contract in Order No. 28865 issued in Case No. IPC-E-01-26 on September 28, 2001, to

increase the maximum surplus electric energy that TASC0 was permitted to deliver to Idaho Power to 8.5 MW and extend the contract's expiration date to September 1, 2003.

THE AGREEMENT

Although the parties wish this arrangement to continue, the Application indicated that the previous contract did not adequately address the future electrical requirements of Idaho Power or TASC0. Both Idaho Power and TASC0 believe this new Agreement addresses current regulations and operating issues to their satisfaction. Electric energy to be sold under the new Agreement is non-firm energy and will only be available when TASC0's Nampa facility does not consume the electric energy and/or when TASC0 elects to generate in excess of its energy consumption. Under the new Agreement:

- The purchase price for the energy is set at 85% of the Avoided Energy Cost as defined within Idaho Power's IPUC Schedule 86.
- The term of the Agreement is 5 years with automatic annual renewals. Following the initial 5-year term, either party may terminate the Agreement with 6 months prior written notice.
- The interconnection equipment and point of delivery terms specified in the 2001 amended contract will continue.

Although the Agreement states its effective date is September 1, 2003, for purposes of a smooth transition, the Agreement provides that it will not become finally effective until the Commission approves the Agreement and declares that all surplus energy payments made under the Agreement shall be allowed as prudently incurred expenses for ratemaking purposes.

The only portion of the Agreement that has changed since the original Application was filed on September 2, 2003 is the Surplus Energy Purchase Price term found in Section 4.3.2. As this section appears in the amended November 10 Application, if Idaho Power requests and TASC0 agrees to provide continuous energy at a designated MW level for set length of time, the Adjusted Surplus Energy Price for that energy will be less than or equal to the Surplus Energy Price set forth in the Agreement. This provision will not bind Idaho Power if the Company determines the continuing operation of its electrical system is in jeopardy or access to alternative energy resources is not physically possible. In the event the parties agree to an Adjusted Surplus Energy Price, Idaho Power will advise the Commission of the agreed upon price.

STAFF COMMENTS

In short, Staff recommends that the Agreement for Sale and Purchase of Surplus Energy between Idaho Power and Amalgamated Sugar Company be approved. Staff believes that the Agreement will help Idaho Power meet expected loads while reducing the Company's reliance on purchases at full market price, thus minimizing power supply costs. Staff also recommends that the reasonably incurred costs associated with the TASCOS Agreement be passed through the PCA.

Staff noted that under the Agreement, TASCOS is required to annually provide Idaho Power with estimated monthly surplus energy amounts before April 1 of each contract year. Thus, while Idaho Power will not know the precise amount or timing of the surplus energy it will be required to purchase from TASCOS, it will at least have a fair indication. TASCOS's monthly estimates of surplus energy make it firmer than most of the energy Idaho Power purchases under its Schedule 86 non-firm energy tariff, where neither the timing nor the amount of generation provided is generally known with any certainty.

Staff believes that the price terms agreed to in this Agreement are attractive to Idaho Power and its ratepayers. Using market prices as a basis for the purchase price, rather than the methodology established for determining long run avoided costs, is appropriate given the short-term nature of the Agreement and the fact that the energy is somewhat non-firm. Most importantly, the purchase price is consistent with the price Idaho Power pays for other non-firm energy purchases.

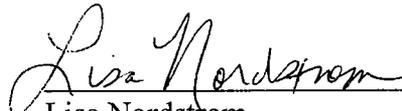
The Agreement also contains a provision that permits the parties to adjust the surplus energy price if, at the request of Idaho Power, TASCOS agrees to provide continuous energy at a designated MW level for an agreed upon length of time. The Agreement envisions such a circumstance, for example, when Idaho Power's access to alternative sources of supply is not physically possible or when the continuing operation of Idaho Power's system is in jeopardy. In such an instance, Staff agrees that it may be advantageous to Idaho Power and its customers to pay more than 85% of market price. The Agreement requires Idaho Power to notify the Commission of the price paid, the energy purchased and the circumstances that the Company believes warranted such purchases.

Idaho Power requests that all payments for surplus energy under the amended Agreement be allowed as prudently incurred expenses for ratemaking purposes. Staff agrees that

the payments should be treated as system power supply costs and passed through the Power Cost Adjustment (PCA) mechanism, subject to Staff's normal audit. By paying 85% of market prices for these power purchases, customers will benefit by Idaho Power either offsetting market purchases at full market price or reselling power it does not need at full market price.

COMMISSION DECISION

Does the Commission wish to approve the Agreement for Sale and Purchase of Surplus Energy between the Company and Amalgamated Sugar Company and declare that all payments for energy purchases made under this Agreement be allowed as prudently incurred expenses for ratemaking purposes?



Lisa Nordstrom

M:IPCE0310_memo2.doc