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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO INCREASE ITS INTERIM AND BASE RATES FOR CHARGES FOR ELECTRIC SERVICE	)	CASE NO. IPC-E-03-13

BRIEF OF THE UNITED STATES DEPARTMENT OF ENERGY

April 23, 2004

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Comes now the United States Department of Energy (DOE) on behalf of its Idaho National Engineering and Environmental Laboratory (DOE/INEEL) and Mountain Home Air Force Base, both of whom are customers of Idaho Power Company (IPC), and through its attorney respectfully submits this Brief in the above-captioned docket. DOE's Brief will focus on cost-of service and revenue spread issues.

COST- OF-SERVICE

IPC witness Brilz conducted a cost-of-service study for the test year ending December 31, 2003. Two major issues arise with respect to Ms.Brilz's cost study: the choice of a methodology to allocate demand-related production costs and the classification of steam and hydro production costs.

1. Allocation Methodology. In its cost analysis, IPC allocated and/or directly assigned its costs to functional segments of its retail electric business.(Tr.2217).

In allocating demand-related production costs to major customer classes, IPC used a weighted 12-month coincident peak (W12CP) methodology. This methodology develops class allocation factors using the simple average of seasonal allocators derived from two different costing approaches—a traditional 12CP methodology and a methodology that weights class monthly coincident peak demands by IPC's estimated generation-related marginal cost.

Although IPC's methodology is subject to criticism for departing from prior Commission orders (See Micron witness Peseau, Tr.2456-2462), it appears to yield reasonable results. As shown in DOE Exhibit 401, class allocation factors under the W12CP are reasonably similar to allocation factors under three other allocation methodologies for all classes except the Irrigation class. These other methodologies include a weighted 5CP (W5CP) methodology using coincident peak demands only in IPC's five capacity deficit months, an unweighted 12CP methodology, and an unweighted 5CP methodology. DOE recommends that IPC's W12CP allocation methodology should be adopted.

2. Cost Classification. In its cost study, IPC classified steam and hydro production costs as demand- and energy-related costs. IPC set the energy-related component of these costs equal to the Idaho jurisdictional load factor (55.26 percent), with the residual (1 – load factor) classified as demand-related costs.(Tr.2217)

DOE urges the Commission to reject IPC's classification proposal. IPC's proposed classification proposal suffers from at least two defects. First, the proposal arbitrarily assumes that higher load factor customers receive a disproportionate share of the cheaper energy benefits of baseload and intermediate capacity without paying a proportionate share of the higher capital costs of such capacity—particularly if demand-related capacity costs are allocated on the basis of peak demands. Second, the classification scheme

arbitrarily assumes that IPC's system load factor somehow identifies the portion of generation plant costs that are supposedly energy-related costs. Neither assumption is intuitively obvious or empirically supported in this case.

As explained in DOE witness Goins' direct testimony, hydro and steam production plant costs should be classified as demand-related costs.(Tr.2223). However, if the Commission believes that part of these costs should be classified as energy-related costs, then they should be classified using a methodology that is consistent with the weighted 12CP allocation methodology that IPC has proposed and that DOE supports. Dr. Goins presented such a methodology in his direct testimony.(Tr.2236). Under this alternative classification scheme, the percentage of IPC's hydro and steam production plant costs classified as energy-related costs would equal the ratio of IPC's *weighted energy allocators in non-capacity deficit months*—that is, all months other than June, July, August, November, and December—to the weighted 12-month allocator. This approach provides an intuitive and measurable linkage between the energy cost of production plant and high load factor energy use. Using this approach, 49.82 percent of IPC's hydro and steam production plant costs would be classified as energy-related costs instead of 55.26 percent as recommended by IPC.(Tr.2237).

REVENUE SPREAD

In spreading its proposed base rate increase among customer classes, IPC set a 25-percent limit on the rate increase to Schedule 24 Irrigation Service customers instead of the 67.1 percent increase indicated by its cost-of-service study. Two undesirable results occur under IPC's proposed revenue spread. First, the proposed spread perpetuates a $25 million annual subsidy paid to Irrigation customers by all other customer classes. Second, IPC's revenue spread moves rates for Residential (Schedule 1) and Small General Service (Schedule 7)

customers farther from cost of service and dramatically increases the subsidy these classes pay to Irrigation customers under present rates. For example, the subsidy paid by Residential customers increases from about $6.9 million under present rates to more than $12.1 million under IPC's proposed rates. This outcome is directly related to IPC's decision to set a 25-percent limit on the rate increase for Schedule 24 Irrigation customers.

As noted throughout the hearing, the Irrigation subsidy issue has been a long-standing issue before the Commission. The time has come to make a meaningful move to eliminate or at least mitigate the Irrigation subsidy. Various approaches to deal with the Irrigation subsidy issue were raised by intervenors. DOE recommends raising Irrigation rates by twice the average system rate increase granted by the Commission. This approach would reduce the Irrigation subsidy to about $19 million at IPC's requested revenue level. (Steps to allocate IPC's allowed base rate increase are delineated in DOE Exhibit 403.)

Kroger witness Higgins (Tr.2251-2253) and Micron witness Peseau (Tr.2268-2271) recommend systematic long-term approaches to eliminate the Irrigation subsidy. If the Commission rejects DOE's revenue spread proposal, then we urge the Commission to adopt either the Kroger or the Micron systematic approach. The continuation of the Irrigation subsidy is not only unfair to other customers, but also hinders IPC's efforts to develop cost-based rate programs to encourage efficient electricity usage by all customers.

CONCLUSION

Based upon the testimony and analyses presented by DOE witness Goins, DOE respectfully requests that the Commission:

1) Approve IPC's weighted 12CP methodology to allocate demand-related production and transmission costs, and its weighted energy-related cost allocation methodology.

2) Reject IPC's classification of hydro and steam production plant costs as demand-and energy-related costs.

3) Approve the classification of all hydro and steam production plant costs as demand-related costs.

4) Reject IPC's proposed revenue spread.

5) Adopt witness Goins' recommendation to spread the allowed revenue increase such that rates for Schedule 24 customers are increased by twice the average system rate increase.

Respectfully submitted,

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United States Department of Energy

Dated: April 23, 2004

CERTIFICATE OF SERVICE

I hereby certify that I have this 23rd day of April, 2004, served the foregoing Post-Hearing Brief of the United States Department of Energy in Case No. IPC-E-03-13 by overnight delivery to the following:

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