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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)	CASE NO. IPC-E-04-9
AUTHORITY TO IMPLEMENT POWER COST)	
ADJUSTMENT RATES FOR ELECTRIC)	COMMENTS OF IDAHO
SERVICE TO CUSTOMERS IN THE STATE)	POWER IN SUPPORT OF
OF IDAHO FOR THE PERIOD MAY 16, 2004)	ACCEPTANCE OF
THROUGH MAY 31, 2005)	SETTLEMENT
_____)	

COMES NOW, IDAHO POWER COMPANY ("Idaho Power"), by and through its attorney, Barton L. Kline, and in response to the Notice of Proposed Settlement, Notice of Modified Procedure and Notice of Comment/Protest Deadline issued on August 18, 2004, submits the following comments.

BACKGROUND

On August 16, 2004, Idaho Power and the Staff of the Idaho Public Utilities Commission ("the Parties") filed a Joint Motion requesting that the Commission approve a settlement agreement negotiated by the Parties. The settlement agreement was memorialized in a Stipulation which was included with the Joint Motion. In the Stipulation, the Parties agreed to resolve a number of issues that the Commission had

directed the Staff and Idaho Power to examine. Those issues are generally described as follows:

(1) In Order No. 29506 issued in this case on May 25, 2004, the Commission authorized the Company to implement Power Cost Adjustment (“PCA”) rates that included the power supply expenses Idaho Power incurred to replace Valmy generation that was interrupted from June 26, 2003 through September 9, 2003 due to an inadvertent energization of the Valmy Plant Unit No. 2 generator. In Order No. 29506, the Commission directed the Staff and Idaho Power to examine the cost of obtaining replacement power resulting from the Valmy Unit No. 2 outage and to advise the Commission whether an adjustment to next year’s PCA based on the cost of replacement power would be reasonable under the circumstances.

(2) In Idaho Power’s general rate case, Case No. IPC-E-03-13, Staff and Idaho Power addressed one of the components of the Company’s PCA calculation, the expense adjustment rate for growth (“EARG”). In Order No. 29505 issued in Case No. IPC-E-03-13, at the request of both the Staff and Idaho Power, the Commission directed Idaho Power and Staff to initiate a separate proceeding to address this component of the PCA calculations.

(3) In 2001, Idaho Power filed its federal income tax return including a non-recurring income tax deduction created by its accounting method change for capitalized overhead costs. Since that tax return filing, the Parties have discussed several regulatory accounting matters they seek to resolve.

Description of Settlement

As might be expected, during the settlement negotiations the Parties had significant differences of opinion as to the respective merits and values that ought to be attributed to each of the above-referenced items.

In the end, the Parties agreed that rather than assigning a value to each of the three issues, a comprehensive settlement which results in Idaho Power providing a \$19.3 million revenue credit to Idaho Power's customers in the Company's PCA was a reasonable compromise of all the disputed claims. The Parties agreed that under the circumstances, it was in the public interest to utilize the PCA and a comprehensive settlement to resolve the outstanding issues.

As noted in the Stipulation, the comprehensive settlement consists of the following:

(1) The EARG would continue at its existing value, 16.84 mills per kWh, until the next general revenue requirement case in which the Company re-sets the base rates for PCA computation purposes.

(2) Idaho Power will provide a \$19.3 million revenue credit to Idaho Power customers in the Company's PCA. This revenue credit will be a separate \$804,166 monthly line item for the months June 2004 through May 2006 in the PCA true-up calculation and includes interest from June 1, 2004 at the PCA carrying charge rate, which is currently one (1) percent.

The Settlement Is Fair, Just, Reasonable and in the Public Interest

For each of the three issues described above, Idaho Power believes there are compelling reasons for the Commission to approve the settlement negotiation by the

Parties and commence the flow of benefits to customers on the schedule set out in the Stipulation. Those reasons are more particularly described as follows:

Valmy Two Outage

Idaho Power estimates that the cost of replacement power attributable to the Valmy Two outage was between \$6 million and \$7 million. Idaho Power is a co-owner of the Valmy Project, but Sierra Pacific Power Company, the other co-owner, operates the Valmy Project pursuant to the terms of the Valmy Operating Agreement. The Valmy Operating Agreement was reviewed by the Commission at the time the Commission approved Idaho Power's acquisition of an its interest in the Valmy Project. Under the terms of the Valmy Operating Agreement, Idaho Power does not direct the day-to-day operation and maintenance activities at the Valmy plant. This is an appropriate arrangement as the Valmy plant is located in Sierra Pacific's control area, and its real-time operation has a major impact on Sierra Pacific's system operations. Idaho Power has retained outside legal counsel and expert consulting engineers to review the facts and the law to determine if Idaho Power has any recourse against Sierra Pacific for the replacement power cost associated with the outage. If the Company ultimately concludes that it would be cost-effective to pursue a claim against Sierra Pacific, the ultimate determination of whether Sierra Pacific breached the Valmy Operating Agreement would not be finally determined for a number of years.

In addition, maintaining symmetry in the PCA process should also play a role in the Commission's consideration of this settlement. Over its life, the Valmy plant has maintained an availability that exceeds national averages. It is not fair to consider

disallowances for isolated instances of less-than-optimal operation without also considering long-run superior performance.

In light of the risk of an adverse outcome and the lengthy delay associated with a legal determination of fault and the need to maintain equity in the PCA process, Idaho Power submits that it is prudent to settle this matter thereby providing immediate benefits to customers.

Regulatory Accounting Issues

The 2001 non-recurring income tax deduction described above resulted in an income tax refund in 2002. To settle the regulatory accounting issues associated with the refund, the Parties have agreed that a portion of this refund will be credited to customers. In addition, because the Internal Revenue Service audit cycle takes years to complete, there is still a possibility that the IRS could contest the Company's income tax deduction and trigger an income tax deficiency in a future test year. Idaho Power has agreed not to seek recovery in its revenue requirement of an IRS deficiency assessment related to the one-time adjustment associated with the capitalized overhead cost tax method change for the years 1987 through 2000.

EARG

The EARG value of 16.84 mills per kWh has been unchanged since the inception of the PCA. Recognizing the substantial workloads for both Company and Staff personnel and that the 16.84 mills per kWh amount roughly splits the difference between the Company's position and the Staff's position, the Parties agreed it is in the

public interest to maintain the EARG at its existing level until the next time the Company files for general rate relief.

Finally, Idaho Power has contacted counsel for each of the Parties that participated in both this case and in the Company's general rate case (IPC-E-03-13). The United States Department of Energy has signed the Stipulation. All of the other Parties have authorized Idaho Power to represent to the Commission that they do not object to the Commission accepting the proposed settlement. Idaho Power believes the complete lack of opposition to the settlement embodied in the Stipulation strongly supports the conclusion that the settlement is fair, just and reasonable and in the public interest.

Consequently, Idaho Power urges the Commission to issue its order granting the Joint Motion and issuing its order approving the settlement Stipulation.

Respectfully submitted this 1st day of September, 2004.



BARTON L. KLINE
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 1st day of September, 2004, I served a true and correct copy of the within and foregoing COMMENTS OF IDAHO POWER IN SUPPORT OF ACCEPTANCE OF SETTLEMENT upon the following named parties by the method indicated below, and addressed to the following:

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