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IDAHO PUBLIC
UTILITIES COMMISSION

January 5, 2007

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
P. O. Box 83720
Boise, Idaho 83720-0074

Re: Case No. IPC-E-06-06
Application of Idaho Power Company for an Accounting Order
Addressing the Deferral of Costs Related to the Development of Grid
West

Dear Ms. Jewell:

Please find enclosed for filing an original and seven (7) copies of Idaho Power Company's Brief on Reconsideration in the above-referenced matter.

I would appreciate it if you would return a stamped copy of this transmittal letter in the enclosed self-addressed, stamped envelope.

Very truly yours,

Barton L. Kline

BLK:sh
Enclosures

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Attorneys for Idaho Power Company

Express Mail Address

1221 West Idaho Street
Boise, Idaho 83702

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	CASE NO. IPC-E-06-6
OF IDAHO POWER COMPANY FOR AN)	
ACCOUNTING ORDER ADDRESSING)	IDAHO POWER COMPANY'S BRIEF
THE DEFERRAL OF COSTS RELATED)	ON RECONSIDERATION
TO THE DEVELOPMENT OF GRID WEST)	
_____)	

STATEMENT OF THE CASE

1. On October 24, 2006, the Commission issued Order No. 30157 addressing Idaho Power Company's ("Idaho Power" or "the Company") application for an accounting order to allow the deferral of expenses the Company had incurred to help develop a Regional Transmission Organization ("RTO") initially named RTO West and ultimately known as Grid West. In that Order, the Commission acknowledged that Idaho Power had incurred the Grid West expenses in response to a FERC order and that the Company's participation in the RTO discussions had been prudent and

beneficial. (Order No. 30157 p. 3). However, in Order No. 30157, the Commission denied recovery of the Idaho jurisdictional portion of the \$2,594,318 in incremental internal costs incurred by the Company to participate in the RTO discussions. The Commission also determined in the Order that Idaho Power would be permitted to defer “the principal amount that it had loaned to RTO West-Grid West, specifically the amount allocated to its Idaho jurisdictional services.” (Order No. 30157 p. 4).

2. In Order No. 30157, the Commission referred to the principal loaned amount as being \$1,274,158. (Order No. 30157 p. 1). That amount *includes* Idaho Power’s accrued carrying costs or interest on the Grid West loans totaling \$190,409¹ and excludes the Idaho portion of the \$7,580 final cash distribution made by Grid West on October 3, 2006. The Idaho jurisdictional share of the \$190,409 interest amount is \$164,933 and the Idaho jurisdictional amount of the \$7,580 final cash distribution is \$6,566.

3. In allocating Grid West costs among its three jurisdictions, Idaho Power used an allocation percentage of 86.62% for Idaho rather than the higher 94.1% for Idaho used in the Company’s Jurisdictional Separation Study. The 86.62% figure is the Idaho jurisdictional share of the Company’s total system transmission capacity. Using that percentage, the resulting dollar amount allocated to the Idaho jurisdiction would be \$932,177. The \$932,177 amount excludes accrued interest on the loaned amount and includes the \$6,566 share of the final cash distribution from Grid West.

¹ This amount was determined by applying the interest rate specified in 18 CFR 35.19a; this is the FERC interest rate for utility refund requirements.

4. The Commission disallowed any carrying costs on the amount to be deferred and required amortization of the deferral balance over a five-year period commencing on January 1, 2007.

5. In Order No. 30192 issued in this case on November 30, 2006, the Commission granted Idaho Power's Petition for Reconsideration and gave the Company the opportunity to submit a brief to provide additional legal authority and argument to support the Company's position that it should be allowed to include carrying costs in the deferral balance the Commission authorized in Order No. 30157.

ARGUMENT

A. Including carrying costs on deferral balances benefits both customers and utilities.

Deferred accounts provide a means to address utility expenses or revenues outside a general rate case proceeding and are a well accepted exception to the general prohibition against retroactive ratemaking. The use of deferred accounts allows a utility to track current costs or benefits to be passed to customers at a later time, as authorized by the Commission.

For many years, the Commission has used deferred accounting to benefit both customers and utilities. A current example of where deferral accounting has benefited customers is the ongoing PCA credit which includes the benefits associated with good water conditions and the proceeds of the sales of surplus SO₂ emission allowances. As discussed in C below, customers are currently receiving the benefit of a carrying charge added to the deferred PCA balance.

When, as in this case, the Company has made expenditures found to be in the public interest, but recovery in rates of those expenditures has been deferred, the

Commission in its orders has consistently recognized the need to compensate the Company for the financial cost of money by authorizing a carrying charge. Failing to compensate the Company for the time-value of its money is confiscation of the Company's assets.

B. The Idaho Code recognizes that allowing carrying charges on deferral balances is in the public interest.

The Idaho Legislature has recognized that allowing utilities to receive carrying charges or interest on deferred amounts is in the public interest. Idaho Code §61-502A explicitly requires that if construction work in progress is excluded from rate base and thereby excluded from current recovery in customer rates, the Commission *must* allow the utility to include a carrying charge in the construction investment ultimately approved for inclusion in rates.

C. The annual Power Cost Adjustment includes a carrying charge in the deferred balance.

It is the routine practice of the Commission to require interest or a carrying charge as a part of the Company's Power Cost Adjustment ("PCA") mechanism. In the Order establishing a PCA for Idaho Power, Order No. 24806, issued on March 29, 1993 in Case No. IPC-E-92-25, the Commission found that interest should be calculated and added to all amounts deferred for later true-up. This finding was premised on the necessity to compensate the customers or the Company (depending upon whether power supply costs had been over-collected or under-collected) for the use of their respective funds. (Order No. 24806 p. 22).

In addressing a revision to the PCA in 2003, the Commission, in Order No. 29334 in Case No. IPC-E-03-5, summarized the rationale supporting its prior decisions to recognize the financial cost of money in deferral situations:

Thus, the parties have agreed to include a carrying charge on the unamortized balance during true-up collections and refunds using the same interest rate the Commission annually determines to be appropriate for the true-up deferral balance accumulation.

The Commission finds this provision will add symmetry to portions of the PCA mechanism that have not allocated costs evenly in years past. *Moreover, carrying charges recognize the financial cost of money that is owed by the Company to customers and vice versa.* The Commission finds that this permanent change to the carrying charge for true-up collections and refunds will fairly allocate this cost. (Emphasis added). (Order No. 29334 p. 3).

D. Numerous Commission orders recognize the requirement for carrying charges on deferrals that the Commission has determined to be in the public interest.

The Commission has on numerous occasions ordered the deferral of Idaho Power expenditures. Upon determination that deferral of those expenditures was in the public interest, the Commission has then authorized the addition of interest or a carrying charge to the deferral balance. The rate of interest has varied depending primarily upon the amortization period, but a carrying charge has always been included. The following Commission orders are illustrative of the Commission's consistent practice:

(1) In Case No. IPC-E-92-18, in Order No. 24572, issued on November 1992, the Commission held that costs deferred under the Company's Power Quality Program would include a carrying charge.

"Therefore, we will allow Idaho Power to defer the costs and to accrue interest on the deferred costs related to the Power Quality Program, as requested in the Company's Application, until December 1, 1993." (Order No. 24572 p. 5). In this case, the allowed carrying charge was equal to the Company's over-all rate of return.

(2) In Case No. IPC-E-97-12, in Order No. 27660, issued July 31, 1998, the Commission addressed deferred Demand Side Management (“DSM”) expenditures:

“We have already found that circumstances unique to DSM and to Idaho Power warrant a different treatment of the Company’s investment in DSM. By the same token, we find that it would be consistent and reasonable for us to consider the reduction in risk attributable to a shorter DSM recovery period in selecting a carrying charge. Because we have decided to allow the Company to shorten DSM recovery to 12 years, we find that a carrying charge of 7.25% based on utility bond rates would be appropriate.” (Order No. 27660 p. 9).

(3) In Case Nos. IPC-E-02-2 and IPC-E-02-3, in Order No. 29026, issued May 13, 2002, the Commission addressed energy cost deferrals in the context of the 2002-2003 PCA. In that Order, the Commission stated:

“However, the Commission also recognizes the additional costs associated with large deferral balances – particularly those extending beyond the traditional one-year PCA recovery period. Thus, the Commission finds in this instance that it is appropriate for the Company to receive a higher interest rate than the current customer deposit rate of 4% on the \$11.5 million that will be deferred for recovery beyond one-year. The Commission finds that 6% is a reasonable rate. This carrying charge is higher than the deposit rate and short-term debt rate but lower than the rate of return. This rate is also reasonable given that it was the customer deposit rate applicable in the 2001 PCA year when the deferral amounts were incurred.” (Order No. 29026 p. 19).

(4) In Case No. IPC-E-01-34 on remand, in Order No. 29669, issued on December 29, 2004, the Commission found, in the context of an appeal of the Commission’s decision on lost revenues:

Based upon our review of the comments and our prior Orders, we find it reasonable for Idaho Power to recover carrying charges during the pendency of the appeal and up to the time that it will begin to recover its lost revenue in the 2005 PCA year. The Supreme Court set aside our Orders and awarded the Company lost revenue. It would be

unreasonable and inappropriate to deny the Company carrying charges for that period of time.

Although we find that the Company is entitled to carrying charges from April 1, 2002 through May 31, 2005, we find that Idaho Power has used the wrong rate to calculate the carrying charges. Typically, the carrying charges are applied to deferral accounts that are normally recovered the following year, e.g., the PCA mechanism.

...

While we recognize that the carrying charges have decreased since 2001, we also recognize the Company has not been able to recover its lost revenue. Balancing the decline in carrying charges with the longer period before recovery, we find that the appropriate interest rate for the carrying charges given the unique facts of this case should be 4%. Consequently, we find that it is appropriate for the Company to recover carrying charges at 4% from April 1, 2002 through May 31, 2005 in the amount of \$1,467,695. (Order No. 29669 pp. 11-12).

(5) In Case No. IPC-E-01-41 in Order No. 28975 issued on March 28, 2002, in discussing the deferral of the cost of increased security measures at the Company's facilities, the Commission found:

"Carrying Charges. Staff next recommended that the Company receive no carrying charges on the accrued deferral balances to be allowed. For its part, the Company maintained that it should be entitled to earn interest on the deferred account balance. We find it reasonable that Idaho Power earn interest on the deferred balance at the rate authorized for customer deposits pursuant to the Utility Customer Relations Rule 106.02, IDAPA 31.21.01.106.02." (Order No. 28975 p. 5).

In summary, the Commission has repeatedly recognized that a carrying charge is required to be included in an authorized deferred balance to make either the utility or its customers whole. If the deferral is for one year, the Commission has customarily used a carrying charge at the rate authorized for customer deposits. If the deferral period is

for longer than a year, the carrying charge has been at a higher rate. In this situation it is reasonable to use the Company's overall rate of return because the deferral period will be five years. Use of this carrying charge rate would also be consistent with the final action taken by the Oregon Commission on the Company's application for deferral of Grid West expenses in the Oregon jurisdiction. (Order No. 06-483, Docket UM 1259).

E. Denying carrying charges on the Grid West deferral balance deprives Idaho Power of the time-value of its funds.

As noted in the cases cited above, on multiple occasions the Commission has acknowledged that in deferral accounting, the time-value of money is a cost that either the Company or its customers will incur. When, as in the case of the current PCA credit, a deferral is booked to provide a credit to customers and a carrying charge allowed, a carrying charge should also be applied to deferral balances that compensate Idaho Power for the use of its money and credit.

F. The record in this case, as augmented herein, supports the authorization of a carrying charge on the deferral balance.

In Order No. 30157, the Commission acknowledged that Idaho power was compelled by FERC order to participate in the development of an RTO. (Order No. 30157 p. 2). The Commission also found in that Order that "Idaho Power's response to FERC orders, and the loans it made to Grid West, were prudent and in the public interest. It would be unfair to disallow deferral of the amount Idaho Power loaned to Grid West." (Order No. 30157 p. 2).

On page 3 of Order No. 30157, the Commission acknowledged that the Company's participation in the RTO discussions was prudent and beneficial. (Order No. 30157 p. 3).

Order No. 30157 also provides “On this record there simply is no compelling reason to allow deferral of interest on the loans, or the internal cost expended by the Company. For the same reason, we do not authorize a carrying charge on the deferral account.” (Emphasis added). (Order No. 30157 p. 3). Idaho Power must respectfully disagree for the following reasons: First, the Commission’s findings in the order that Idaho Power’s participation in the RTO discussions was compelled by FERC and the loans made to Grid West were prudent and beneficial to customers, constitute a substantial record which supports the inclusion of a carrying charge in a deferral that the Commission has determined to be in the public interest. Second, the Commission’s longstanding history of allowing carrying costs on deferral balances described in the cases cited herein, adds further support in the record. Third, the historical record presented in this brief demonstrates an even-handed approach that recognizes the time-value of money contributed by both customers and utilities. Finally, in light of the Commission’s longstanding policy of allowing carrying charges on deferred expenditures made in the public interest, the Commission’s decision in this instance to deny the recovery of carrying charges on approved deferred expenses without any specific reason given to support the denial, is arbitrary, capricious and confiscatory.

Conclusion

Recognizing that reconsideration in this proceeding is limited to the issue of a carrying charge on the authorized deferral balance, the Commission should take the following action:

1. The Commission should order that the amount to be deferred in the Idaho Jurisdiction is \$932,177.

2. The deferred balance of \$932,177 would have a carrying charge applied at the Company's overall rate of return of 8.1%², commencing April 1, 2006.³

3. Amortization of the deferred balance with carrying charges would commence January 1, 2007 and continue for five years as provided in Order No. 30157.

The above actions would be consistent with prior Commission precedent regarding the application of carrying charges to deferral balances once the Commission has found, as it has in this case, that deferral is in the public interest.

Respectfully submitted this 5th day of January 2007.


BARTON L. KLINE
Attorney for Idaho Power Company

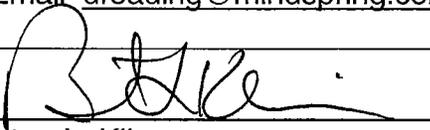
² Commission Order No. 30035, case No. IPC-E-05-28.

³ Grid West ceased operation on March 31, 2006.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 5th day of January 2007, I served a true and correct copy of the within and foregoing document upon the following named parties by the method indicated below, and addressed to the following:

Commission Staff Weldon B. Stutzman Deputy Attorney General Idaho Public Utilities Commission 472 W. Washington (83702) P.O. Box 83720 Boise, Idaho 83720-0074	<input type="checkbox"/> Hand Delivered <input checked="" type="checkbox"/> U.S. Mail <input type="checkbox"/> Overnight Mail <input type="checkbox"/> FAX <input checked="" type="checkbox"/> Email weldon.stutzman@puc.idaho.gov
Industrial Customers of Idaho Power Peter J. Richardson, Esq. Richardson & O'Leary 515 N. 27 th Street P.O. Box 7218 Boise, Idaho 83702 Don Reading Ben Johnson Associates 6070 Hill Road Boise, Idaho 83702	<input type="checkbox"/> Hand Delivered <input checked="" type="checkbox"/> U.S. Mail <input type="checkbox"/> Overnight Mail <input type="checkbox"/> FAX <input checked="" type="checkbox"/> Email peter@richardsonandoleary.com <input type="checkbox"/> Hand Delivered <input checked="" type="checkbox"/> U.S. Mail <input type="checkbox"/> Overnight Mail <input type="checkbox"/> FAX <input checked="" type="checkbox"/> Email dreading@mindspring.com


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