Department of Energy
Washington, DC 20585

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May 20, 2008

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

RE: Case No. IPC-E-08-07

Dear Ms. Jewell:

As per the Commission's requirement, the original and seven copies of The United States Department of Energy's comments in the above-captioned proceeding are enclosed herewith. An additional copy is also enclosed. Please date-stamp this additional copy, and return it in the enclosed self-addressed postage paid envelope.

Thank you very much for your assistance.

Sincerely,

Arthur Perry Bruder
Office of the General Counsel
United States Department of Energy
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BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO IMPLEMENT POWER COST ADJUSTMENT (PCA) RATES FOR ELECTRIC SERVICE FROM JUNE 1, 2008 THROUGH MAY 31, 2009	**CASE NO. IPC-E-08-07** NOTICE OF APPLICATION NOTICE OF MODIFIED PROCEDURE NOTICE OF PUBLIC WORKSHOPS ORDER NO. 30540

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THE UNITED STATES DEPARTMENT OF ENERGY'S RESPONSE TO THE APPLICATION

COMES NOW the United States Department of Energy ("DOE") on behalf of its Idaho Operations Office and of other Federal Executive Agencies, all of whom are customers of Idaho Power Company ("IPC"), and by and through counsel, respectfully submits this response to the subject application herein.

I - INTRODUCTION - THE PROPOSED PCA RATE METHODOLOGY DEVIATION

Idaho Power Company (IPC) asks the Commission to allow a deviation from the PCA rate methodology which was included in the Commission's most recent IPC rate order. The deviation would allow IPC to pass through to customers 100%, rather than the Commission-approved 90%, of the difference between its actual and normalized power supply costs. The United States Department of Energy (the Department) respectfully offers the following response to IPC's request.

II – A MOST STRINGENT STANDARD OF REVIEW MUST BE APPLIED TO IPC'S REQUEST. UNDER THAT STANDARD, THE REQUEST SHOULD BE DENIED, OR AT LEAST SUBJECTED TO FURTHER SCRUTINY.

(a) In the present situation, this much at least is uncontested:

(1) IPC seeks a change in just one facet of one element of the Commission's recent all-encompassing rate order. All of the elements that together comprise that order are set out in a very recent stipulation, that was agreed to by IPC and interested parties, and approved by the Commission. Each of the elements of the stipulation was developed and adopted not by itself, but with in consideration of all of the others. Those elements included the PCA methodology, and its attendant proportionate 90% - 10% division of risk between customers and shareholders. To change just this one facet of this one element of the general

rates which the Commission so recently approved would be contrary to the longstanding prohibition of "one issue ratemaking";

(2) The change which IPC seeks could produce a very substantial financial impact upon its customers, including the Federal Executive Agencies;

(3) A shift in risk from IPC to customers is of particular concern at this time given the substantial volatility currently being experienced in wholesale energy markets;

(4) There is no allegation that denial of this deviation will place IPC in jeopardy.

III - IPC'S PROFFERED REASONS FOR THE DEVIATION ARE UNPERSUASIVE.

(a) IPC proffers three reasons in support of its request: (1) failure of a number of qualifying facilities projects (QF) to come on-line at the times at which the Company's very recent projections envisioned that they would; (2) lack of inclusion of prescriptive hedging activities in the PCA forecast methodology; (3) drought conditions. These reasons are discussed below.

(b) Discussion

(1) Failure of a number of QF's to come on-line at the times which the Company's very recent projections envisioned - IPC points out that multiple wind projects that it forecasted would be on-line by the end of 2007 are not yet operational and will not provide previously anticipated energy. To counterbalance this, IPC may be required to increase its thermal generation or purchase replacement energy in the wholesale market. IPC anticipates that payments to QF's will be about $30 million less than levels included in its base rates, and that replacement energy costs will exceed $40 million. IPC's requested deviation would require ratepayers to pay 100%, rather than the Commission-approved 90%, of that increase. Thus, IPC seeks to burden its customers with at least $4 million additional costs.

IPC has a long history of delayed wind projects. Almost none of its contracted-for wind projects have achieved commercial operation at or near their projected on-line dates. (Please see attached Table One, which is a summary of the Company's recent power purchases from wind projects.) Thus, the extreme inaccuracy of its projection of energy deliveries from wind projects cannot have taken IPC by surprise. The Company certainly knew about it at the time it filed its most recent general rate case. As of June 11, 2007, it had twelve wind projects that were behind schedule by between one month and nearly a year and a half. Sixteen of IPC's wind projects were apparently behind schedule by three months to over two years as of April 16, 2008, the date that it made this application. (Please see Table 2, which sets out the delayed projects.) Thus, at the time that IPC signed the January 23, 2008 stipulation that mandated the PCA methodology from which it now seeks to deviate, IPC already knew that its projection was likely substantially wrong. Yet, it stuck by that projection.

Certainly, the fact that the projection was extremely inaccurate is a major factor underlying the Company's request. Moreover, the Company unquestionably knew and understood the *risk* associated with the need to purchase replacement energy in the event of delayed wind projects. It is therefore the Company's responsibility, not the ratepayers', to manage the uncertainty, the *risk*, that is inevitably associated with QF on-line dates. All of this dictates that it would be inequitable and unjust to burden ratepayers - or, rather, *further* burden ratepayers, with that risk. By asking for a waiver of the 90%-10% division of this risk, the Company is asking the Commission to *relieve it of responsibility for its own wind project energy projection* - a projection it agreed to just three months prior to its application in this case. The Commission should not unburden the Company from - and further burden ratepayers with - risks that the Company voluntarily undertook when it stipulated to the adoption of its own projection.

<u>(2) Lack of inclusion of prescriptive hedging activities</u> - IPC argues that 100% pass-through of power supply costs to its customers is appropriate because of the prescriptive nature of its Commission-approved risk management policy. (Testimony of Company witness Said, page 7, line 23) The Company indicates that it has a net hedging position of nearly $51 million, that is comprised of previously executed wholesale market purchases and sales. All stakeholders hope that this will significantly mitigate whatever power supply cost increases the Company may encounter. But the Department respectfully submits that the Company has not presented anything which would indicate that the Commission's approved risk management policy is so unsatisfactory as to justify the one issue ratemaking that the requested waiver would demand.

<u>(3) Drought conditions</u>
The Department respectfully submits that the Company has simply not provided any material which establishes that the duration and/or magnitude of drought which it now faces or likely may face is such as to justify the requested waiver.

<u>V - CONCLUSIONS</u>
Given all of this, the Department respectfully submits that any change in the Commission-approved PCA methodology are best addressed in conjunction with a general rate case, rather than "on the fly" in a "one issue" proceeding. In line with this, the Department respectfully points out that:

(a) The risk to IPC's shareholders that results from variable levels of fuel and purchased power cost recovery associated with the Commission-approved PCA methodology is fully incorporated in IPC's authorized general rates, which were recently approved by the Commission on February 28, 2008, when the Commission approved a stipulation in IPC's most recent general rate case;

(b) At the time that it agreed to the stipulation in its last rate case, IPC likely was or should have been aware that energy from new QF projects would not be available as previously anticipated. Therefore, IPC should not now be permitted to change the balance of risk struck in that stipulation, in which it agreed to a specific level for normalized qualifying facilities costs;

(c) Neither the Commission nor IPC's customers are in a position to evaluate the full effect of IPC's requested deviation in PCA methodology on customers or the Company without access to information regarding IPC's hedged and unhedged energy supply portfolio positions.

V - RECOMMEDATIONS

(a)The Department respectfully recommends that:

(1) the Commission should deny the IPC request because the request fails to state a *prima facie* case for the relief that it seeks;

(b) if the Commission does not deny the request as set out above, it should:

(1) order that workshops be convened on the issue; and,

(2) mandate that the issue shall be addressed in the context of IPC's soon- to-be-filed general rate case.

(c) in whatever context the request is heard, at least the following should be addressed:

(1) the magnitude of the increased costs that the waiver would shift to customers. **Commodity energy prices have increased greatly since the Company agreed to the stipulation in its last general rate case, and those prices are now of far greater concern than they were just four months ago. (Please see Table Three, which is a summary of the Henry Hub natural gas futures prices.) The Company's prospective replacement power costs have likely increased significantly. The Company's application does not address these increased costs. Some reasonable measurement of the dollar amount or amounts of additional cost responsibility that the requested waiver would shift to IPC's customers is critical. At this point there has been no such measurement, or even any presentation of the manner in which such measurement would properly be carried out.**

(2) the role of hedging. **It is unclear from IPC's filing whether its discussion of its $51 million net hedging position is in any way related to its projection that replacement energy costs resulting from delayed QF purchases will exceed $40 million. Therefore, it is unclear whether IPC's requested deviation may entail an additional allocation to customers of hedging-related costs. Evaluation of this must be based on information regarding IPC's hedged and unhedged energy supply portfolio forward positions;**

(3) possible multi-year effect. **It appears that problems caused by delayed wind projects may extend over several years. The requested waiver may therefore be a multi-year issue. The Company's March 3, 2008, cost projections to the Bonneville Power Administration includeprojected in-service dates for all of the**

its pending sixteen wind projects. (Please see Table One.) For twelve of these projects, the Company's projected in-service dates are now December 2009, a full two years after the anticipated in-service date of no later than December 31, 2007 that was included in the Company's stipulated PURPA expenses projection. Company witness Said testified that an average of 62 megawatts of energy that were included in the Company's projected PURPA expenses will not be available in 2008 because of the delayed wind projects. (Said testimony, page 5, line 6) The Company's application did not provide the derivation of that number, but it can be verified by review of the Company's pending wind projects. (Please see attached Table Two.) For the PCA deferral period April 2008 through March 2009, the average megawatts of energy that will not be available from wind projects as previously anticipated falls slightly to 57 average megawatts assuming two wind projects come on-line as the Company now expects. For the following PCA deferral period, April 2009 through March 2010, the average shortfall in energy deliveries from wind projects is over 41 megawatts, after two additional wind projects come on-line. Clearly, if the Company's new projected wind project on-line dates prove valid, the significant differences between actual and normalized PURPA expenses will extend well beyond the present year. These potential effects of the requested waiver upon multiple PCA years require attention.

(4) the timing of certain of the Company's perceptions and actions. The relationship of the time when the Company determined that its projection of QF on-line dates was inaccurate, and the time that it determined that it would be necessary for it to implement its risk management policy and make additional market purchases is worthy of further investigation.

Respectfully submitted,

Lot Cooke

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May 20, 200

Table One

Idaho Power Company's Recent Wind Project Purchases and a Comparison of Schedule Operation Dates Versus Recently Estimated Target In-Service Dates[1]

Wind Project	Idaho PUC Case No. IPC-E-	Name-plate Capacity (MW)[2]	Annual Contract (aMW)[2]	Scheduled Operation Date[3]	Months Behind Schedule As of 04/16/08	Estimated Target In-Service Date[2]
On-Line Projects						
Telocaset Wind Power Partners, LLC[4]	06-31	100	34	03/21/08		12/28/07
Delayed Projects that May Be On-Line						
Hot Springs Windfarm LLC	06-34	19.8	5.7	12/31/07	3.5	Mar-08
Bennett Creek Windfarm LLC	06-35	19.8	5.7	12/31/07	3.5	Mar-08
Sub-Total			11.4			
Delayed Projects Expected On-Line Soon						
Cassia Wind Farm LLC	06-10	10.5	3.4	12/31/06	15.5	Jul-08
Cassia Gultch Wind Park LLC	06-11	18.9	5.8	12/31/06	15.5	Jul-08
Sub-Total			9.2			
Projects Delayed Two Years or More						
Thousand Springs Wind Park LLC	05-06	10.5	3.3	01/15/06	27.0	Dec-09
Pilgram Stage Station Wind Park LLC	05-07	10.5	3.3	01/15/06	27.0	Dec-09
Oregon Trail Wind Park LLC	05-08	10.5	3.3	01/15/06	27.0	Dec-09
Tuana Gulch Wind Park LLC	05-09	10.5	3.3	01/15/06	27.0	Dec-09
Golden Valley Wind Park	05-17	10.5	3.3	06/01/06	22.5	Dec-09
Burley Butte Wind Park	05-18	10.5	3.3	12/31/05	27.5	Dec-09
Milner Dam Wind Park	05-30	18	5.9	May-07	10.6	Dec-09
Lava Beds Wind Park	05-31	18	6.3	May-07	10.6	Dec-09
Notch Butte Wind Park	05-32	18	6	May-07	10.6	Dec-09
Salmon Falls Wind Park	05-33	21	6.3	May-07	10.6	Dec-09
Magic Wind Park LLC	06-26	20	6.1	12/31/07	3.5	Dec-09
Alkali Wind Park	06-36	18	4.8	12/31/07	3.5	Dec-09
Sub-Total			55.2			

(1) Applications for approval of purchases from wind projects for the years 2005 through the present, excluding Arrow Rock Wind, which was terminated, and Fossil Gulch Wind Park, for which information on either an in-service date or termination date could not be found.

(2) Idaho Power Company, Letter from Scott L. Wright, Pricing Analyst, to Ms. Michelle Manary of the Bonneville Power Administration, March 3, 2008 (see the last page of the attachment to that letter). Available at: http://www.bpa.gov/corporate/finance/ascm/Docs/2008-03-03_IdahoPower_ASC.PDF

(3) Taken from Idaho Power Company's applications for approval of sales agreements.

(4) The scheduled operation date was taken from direct testimoy of Idaho Power Company witness Celeste Schwendiman in Case No. IPC-E-06-31, p. 9, ln. 17. Idaho Power Company reported that this facility became commercially operational on December 28, 2007, in IdaCorp's 10-k, February 28, 2008, p. 61.

Estimated Average Megawatts of Energy Associated with Delayed Wind Projects for Idaho Power Company for Calendar Year 2008, and Power Cost Adjustment Years April 2008 through March 2009 and April 2009 through March 2010

Wind Projects	Annual Contract (aMW)	Calendar 2008 Months Not On Line	Annual Percent of the Year Not On Line	Calendar 2008 Weighted Contract (aMW)
Delayed Projects that Are On-Line	11.4	2	17%	1.9
Delayed Projects Expected On-Line Soon	9.2	6	50%	4.6
Projects Delayed Two Years or More	55.2	12	100%	55.2
Total[1]	75.8			61.7

Wind Projects	Annual Contract (aMW)	Apr-08 to Mar-09 Months Not On Line	Annual Percent of the Year Not On Line	Apr-08 to Mar-09 Weighted Contract (aMW)
Delayed Projects that Are On-Line	11.4	0	0%	0
Delayed Projects Expected On-Line Soon	9.2	3	25%	2.3
Projects Delayed Two Years or More	55.2	12	100%	55.2
Total	75.8			57.5

Wind Projects	Annual Contract (aMW)	Apr-09 to Mar-10 Months Not On Line	Annual Percent of the Year by 12	Apr-09 to Mar-10 Weighted Contract (aMW)
Delayed Projects that Are On-Line	11.4	0	0%	0
Delayed Projects Expected On-Line Soon	9.2	0	0%	0
Projects Delayed Two Years or More	55.2	9	75%	41.4
Total	75.8			41.4

(1) The 61.7 aMW calculated above is in line with Idaho Power Company's testimony in this case. See the direct testimony of Idaho Power Company witness, Gregory Said, p. 5, ln. 6.

Table Two

Comparison of NYMEX Henry Hub Natural Gas Futures Prices

Month	Days	Hours	IPC's General Rate Case Application 06/11/07	General Rate Case Stipulation 01/23/08	IPC's PCA Application 04/16/08	05/14/08
Apr-08	30	720	$8.340	$7.586	$9.580	$9.580
May-08	31	744	$8.250	$7.641	$10.433	$11.290
Jun-08	30	720	$8.337	$7.724	$10.532	$11.598
Jul-08	31	744	$8.440	$7.808	$10.639	$11.738
Aug-08	31	744	$8.515	$7.879	$10.698	$11.825
Sep-08	30	720	$8.555	$7.892	$10.716	$11.850
Oct-08	31	744	$8.670	$7.971	$10.768	$11.912
Nov-08	30	721	$9.135	$8.226	$11.023	$12.162
Dec-08	31	744	$9.605	$8.511	$11.373	$12.527
Jan-09	31	744	$9.880	$8.736	$11.598	$12.737
Feb-09	28	672	$9.865	$8.741	$11.558	$12.682
Mar-09	31	743	$9.605	$8.521	$11.283	$12.397
12-Months	365	8,760	$8.929	$8.100	$10.848	$11.858
Percent Change from 6/11/07:				-9%	21%	33%
Percent Change from 1/23/08:					34%	46%

Table 3