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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 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 COMMENTS OF THE INDUSTRIAL CUSTOMERS OF IDAHO POWER

COMES NOW, The Industrial Customers of Idaho Power ("ICIP") and pursuant to this Commission's Notice of Application and Notice of Modified Procedure embedded in Order No. 30504 provides its Comments on Idaho Power Company's ("Company" or "Idaho Power") 2008 annual Power Cost Adjustment ("PCA") Application:

I.
SUMMARY

The ICIP opposes the use of a 100% recovery mechanism for the current PCA year and for true-up purposes next year. Due to the large increase in the PCA rate, and its disparate impact on high load factor customers, the Industrial Customers of Idaho Power respectfully ask this Commission to spread this year's PCA balances over a three-year period.

II.
IDAHO POWER MUST SHARE THE RESPONSIBILITY FOR THE LACK OF NEW WIND PURPA PROJECTS COMING ON-LINE IN 2007

Idaho Power is asking the Commission to waive, on a one-year basis, the 90/10% split in recovery of the difference between normalized power supply expenses and projected PCA costs. Idaho Power bases its request on two primary arguments. The Company argues that the failure of expected PURPA projects to come on line as projected will result in the Company's expending more to acquire off system power to replace the PURPA power that was anticipated. According to Company witness Said;

> Q. Have all of the new PURPA wind projects that were included in the test year determination of power supply expenses in the 07-08 case come on-line as anticipated?
>
> A. No. Apparently a number of wind projects initially signed contracts to be on-line by the end of 2007 in order to receive tax credit benefits that required an on-line date prior to December 31, 2007. Once the tax credit benefits were extended, the wind projects sought to have their contracts amended to allow for later on-line dates. As a result, 62 average megawatts of energy the Company had envisioned receiving in 2008 from new PURPA projects, will not be available and the Company will be forced to replace this amount of energy with purchases from the market.

Said, Di. pp. 4-5.

According to Mr. Said's testimony, the failure of these PURPA projects to come on line in 2007 will reduce anticipated PURPA expenses by $30 million dollars; however the cost of replacement power is nearly $40 million dollars. Said, Di. p. 5. Because the Company recovers 100% of its PURPA related power supply costs and 90% of the increased market purchases necessary to replace the PURPA power that did not materialize, the Company complains that it will lose "$1 million for every $10 million of additional purchased power expenses."

Mr. Said's explanation for the lack of new wind coming on-line in 2007 would benefit from an understanding of Idaho Power's role in delaying the connection of new wind projects in Southern Idaho pending an expensive upgrade to its backbone transmission system. See, *Cassia Gulch Wind Park LLC and Cassia Wind Farm LLC v. Idaho Power Company* IPC-E-06-21 (Sept. 13, 2006). In light of rapidly escalating construction costs, and in light of the fact that wind developers do not get paid unless they are producing, most wind developers would report that a delay in an anticipated on-line date is harmful to them. A more credible explanation for the lack of wind projects coming on line in 2007 would be Idaho Power's attempt to upgrade its transmission system at the expense of the wind industry. It is possible, likely in fact, that Idaho Power's own actions resulted in the lack of new wind projects coming on line in 2007 rather than the wind industry's leisurely approach to on-line dates as implied by Mr. Said.

Regardless of who caused the problem with wind projects failing to coming on line in 2007 – Idaho Power or the wind industry – the ratepayers should not be caught in the cross fire. The fact that Idaho Power was unaware that there would be difficulties for contracted wind projects to come on line in the face of overwhelmingly high transmission costs suggests that the Company was not paying attention to the facts on the ground. This lack of foresight is not sufficient to insulate the Company's shareholders from a very modest 10% exposure to power supply deviations.

III.
THE COMPANY'S RISK MANAGEMENT POLICY IS A CREATION OF THE COMPANY AND SHOULD NOT BE USED TO THWART THE COMMISSION'S WELL REASONED COST SHARING METHODOLOGY

While not specifically asking the Commission to permanently remove the 90/10% sharing of PCA costs in this case, Idaho Power is apparently laying the groundwork for such a request.. According to Company witness Said:

> With the onset of the prescriptive buying and selling methodology embodied in the Risk Management Policy, the concept of providing incentives to encourage wise decisions based upon the Company's market price view has been greatly diminished. It is the Company's belief that because of the prescriptive risk management policy 100% pass-through of the PCA expenses to customers is appropriate.

Said, Di. p. 7.

The Company's Risk Management Policy, at the end of the day, is the **Company's** Risk Management Policy. The extent and the degree to which that policy puts blinders on the Company's management when it comes to risk management may be the subject of debate. Although that policy was developed with the assistance of various stakeholders, the ICIP included, that policy is in place because the Company adopted it and the Company advocated for its implementation. The ICIP, as a participating stakeholder, was not squarely faced with the proposition that the policy's adoption would result in the elimination of the 90/10 sharing of deviations in expected power supply costs. The Company's argument suggests that it may be time to reevaluate its Risk Management Policy. It doesn't suggest that it is time to eliminate the sharing methodology this Commission adopted when it first ordered the implementation of the PCA.

It is instructive to review the Commission's original rationale for adoption of the 90/10 sharing:

> We find that a 90-10 sharing provides the Company with a sufficient incentive to efficiently manage its power supply costs. Furthermore, it is a better reflection of the degree to which Idaho Power can influence those costs. We find that, after the initial phase-in period . . . allowing Idaho Power to recover 90% of its net power supply costs through a PCA will achieve the goal of earnings stability while still providing an adequate incentive for efficiency.

Order No. 24086, IPC-E-92-25, p. 13.

Elimination of power supply cost risk by permitting recovery of 100 % of all deviations in projected power supply costs will have an impact on Idaho Power's cost of equity. The impact on cost of equity will also impact Idaho Power's cost of debt. Therefore, the base power supply costs would also be impacted. None of these associated impacts have been addressed by the Company in its filing. In order to set fair and reasonable rates, however, all these affiliated impacts should be investigated prior to the elimination of Idaho Power's risk associated with deviations in projected power supply costs.

Other than shifting the risks associated with its power supply decisions completely to the ratepayers, (who currently bear 90% of that risk), there is no reason to adopt the Company's recommendation. The ICIP respectfully requests that this Commission reject the Company's proposal and maintain the methodology that has been in place since the PCA was first implemented in 1993.

IV.
THE CONCEPT OF RATE STABILITY IS EQUALLY COMPELLING FROM THE CUSTOMER'S PERSPECTIVE – NECESSITATING A PHASE-IN

After taking into account the $16.1 million in So2 credits the Commission ordered to be included in the 2008-09 PCA, the Company is proposing a $70.5 million or 10.36% overall increase. This 10.36% increase is an overall percentage, with the impact on individual customer classes varying dramatically. Because the PCA costs are spread on a cents-per-kWh-basis, high load factor customers receive a disproportionate share of the increase. For example, instead of receiving the overall ten percent increase, the Schedule 19 customers (ICIP members) will receive a fifteen percent increase. The special contract customers are hit even more disproportionately with increases up to eighteen percent.

It is important to keep the context in which this proposed increase is taking place. This is only one of many discreet rate increases currently facing Idaho Power's ratepayers. Ratepayers are faced with a 1.4% increase for the Danskin CT (IPC-E-08-01), and a 1% to 2.5% increase for the Energy Efficiency Rider (IPC-E-08-04) and the Company has noticed that it will file a general rate case by June 1st. Not including the potential impact of the general rate case the Industrial Customer of Idaho Power are faced with a total rate increase closer to 20% than the PCA average of 10%![1]

This Commission was very concerned about rate stability when it first allowed Idaho Power to take advantage of a PCA mechanism. This Commission articulated its rate stability concerns in response to Idaho Power's offer to attempt to ameliorate potential "rate shock":

> Idaho Power represented during the hearing that it was willing to accommodate the Commission's desire to ameliorate the "rate shock" that could result during periods of very low water. We accept this offer but note that the **goal of rate stability is of such importance that we would have imposed a similar requirement even in the absence of the Company's acquiescence.**

Order No. 24806, IPC-E-92-25, emphasis provided.

This Commission was so concerned about possible rate shock that it set a bright line test for triggering an investigation into deferrals of large PCA rate increases:

> For the purpose of giving a degree of specificity to this rate stability goal, we require the following: if forecasted increases above normalized power supply costs in any given year are predicted to exceed 7% of the Company's normalized base revenues for the Idaho jurisdiction, then **Idaho Power is instructed to make a filing** with the Commission for

[1] PCA 15.07% plus Danskin 1.4% plus Efficiency Rider 2.5% equals 18.97%/

the purpose of determining whether a means to defer a percentage of that year's power supply cost recovery should be investigated.

Id, emphasis provided.

Without explaining why it has chosen to ignore this Commission's requirement, Idaho Power has made no "filing for the purpose of determining whether a means to defer" this very large PCA should be investigated.[2]

Due to this large PCA increase, and in conformance with this Commission's guidelines on deferrals for PCA's in excess of 7%, the ICIP respectfully requests that the current year's PCA be deferred and recovered in three equal annual installments. This water year is projected to be slightly above normal; as a result the Snake River hydro storage system is scheduled to refill. In considering a deferral, the Commission should be cognizant that this year's PCA is NOT driven by the current water conditions. Indeed, the current year's PCA, standing alone, would result in a rate decrease. The large PCA balance is driven by the true up from last year's failure to accurately project power supply costs. It is therefore reasonable to spread the impact of that aberration over a three year time frame.

RESPECTFULLY SUBMITTED THIS 20th day of May 2008.

Richardson & O'Leary, LLP

By ______________________
Peter J. Richardson
Industrial Customers of Idaho Power

[2] The Commission explained that the notification requirement is applicable when current rate changes, when combined with the true up adjustments for the previous year, exceed 7% as is the case this year.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on the 20th day of May, 2008 a true and correct copy of the within and foregoing COMMENTS OF THE INDUSTRIAL CUSTOMERS OF IDAHO POWER, was served by HAND DELIVERY, to:

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