BEFORE THE

RECEIVED
2008 JUL 24 PM 1:59
IDAHO PUBLIC
UTILITIES COMMISSION

IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR AN ACCOUNTING ORDER AUTHORIZING THE INCLUSION OF POWER SUPPLY EXPENSES ASSOCIATED WITH THE PURCHASE OF CAPACITY AND ENERGY FROM PPL ENERGYPLUS, LLC IN THE POWER COST ADJUSTMENT	)	CASE NO. IPC-E-08-13

COMMENTS OF THE COMMISSION STAFF

IDAHO PUBLIC UTILITIES COMMISSION

JULY 24, 2008

ALLEGEDLY PROPRIETARY DATA HAS BEEN DELETED FROM THIS DOCUMENT

SCOTT WOODBURY
DEPUTY ATTORNEY GENERAL
IDAHO PUBLIC UTILITIES COMMISSION
PO BOX 83720
BOISE, IDAHO 83720-0074
(208) 334-0320
IDAHO BAR NO. 1895

Street Address for Express Mail:
472 W. WASHINGTON
BOISE, IDAHO 83702-5983

Attorney for the Commission Staff

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER COMPANY'S APPLICATION FOR AN ACCOUNTING ORDER AUTHORIZING THE INCLUSION OF POWER SUPPLY EXPENSES ASSOCIATED WITH THE PURCHASE OF CAPACITY AND ENERGY FROM PPL ENERGYPLUS, LLC IN THE POWER COST ADJUSTMENT	)))))))))	**CASE NO. IPC-E-08-13** **COMMENTS OF THE COMMISSION STAFF**

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its attorney of record, Scott Woodbury, Deputy Attorney General, and in response to the Notice of Application, Notice of Modified Procedure and Notice of Comment/Protest Deadline issued on June 25, 2008, submits the following comments.

BACKGROUND

On June 16, 2008, Idaho Power Company (Idaho Power; Company) filed an Application with the Commission for an Order approving a firm wholesale Power Purchase Agreement (PPA; Agreement) between Idaho Power and PPL EnergyPlus, LLC (EnergyPlus). The Company requests accounting treatment that will allow Idaho Power to include the expenses associated with the purchase of capacity and energy from EnergyPlus in the Company's Power Cost Adjustment (PCA).

The EnergyPlus Agreement replaces an Idaho Power/PPL Montana contract that will expire at the end of August 2009. Reference Order No. 29286, Case No. IPC-E-03-08. In the spring of 2008, the Company issued a Request for Proposals (RFP) to replace the expiring contract. EnergyPlus was the successful bidder. EnergyPlus is the marketing arm of PPL Montana. As a result, it has access to the generating resources owned and operated by PPL Montana.

The principal provisions of the Power Purchase Agreement with EnergyPlus call for a firm power purchase for the heavy load hours, six days a week (Monday through Saturday), 16 hours a day (6 x 16) in the months of June, July and August (except for NERC holidays). These are the time periods identified in the Company's 2006 IRP as critical peak hours. The term of the Agreement is two years, June 1 through August 31 of each year beginning in 2010 and ending in 2011. The quantity of energy purchased is 83 MWh per hour. The price to be paid for this energy is $92.25 per MWh. After adjusting for losses, Idaho Power will actually receive approximately 80 MWh per hour under the PPA. The total cost of the Agreement over its term is $19,111,248.

In addition to power costs under the Agreement, Idaho Power states it will purchase firm monthly transmission service across Northwestern Energy's transmission system to the Jefferson point of delivery. At current rates under Northwestern Energy's open access transmission tariff (OATT), the maximum charge for monthly firm transmission service is $3.42 per kW of reserved capacity per month. Losses are charged at four percent. After consideration of losses and transmission costs, Idaho Power will incur a total cost of approximately $101 per MWh under the PPA.

STAFF ANALYSIS

Need for Power

As noted previously, the PPL EnergyPlus contract replaces a similar existing contract with PPL Montana for an identical amount of capacity and energy. The only differences between the new Agreement and the old one is in the price and the length of the agreement. In its 2006 Integrated Resource Plan, Idaho Power has assumed that the PPL Montana contract, or a similarly structured replacement delivered to Idaho Power's east side, would be in place throughout the planning period. Consequently, if this Agreement is not approved, the Company will have to seek an additional 83 MW to meet planned loads during the summers of 2010 and

2011. Idaho Power's plans also assume that all existing peaking capacity would be operating during the peak load hours of June, July and August, thus, no additional capacity could be tapped to provide 83 MW in the absence of the PPL EnergyPlus contract. Based on analysis in the Company's 2006 IRP, Staff believes the Company will be unable to meet its 83 MW need using only its existing resources.

Proposals

This section of Staff's comments contains confidential information subject to protective agreement. Ultimately, Idaho Power negotiated a two-year agreement with PPL EnergyPlus at a price of $92.25 per MWh.

Comparison to Other Alternatives

Idaho Power contends that the energy costs of $92.25/MWh are competitive and favorable when compared to alternative resource options. Idaho Power states in its Application that it has already purchased heavy load energy for August 2008 at prices between $110 and $120 per MWh.

In its Application, the Company also noted that heavy load forward price curves for Mid-Columbia (Mid-C) are slightly above the PPA contract price. On Attachment A, Staff plotted forward prices for Mid-C from the beginning of 2007 through June 19, 2008. As the graph shows, the $92.25 rate in the PPL EnergyPlus contract has exceeded forward prices for June and July of 2010 and 2011 for all of the past 18 months. In the past several months, however, August forward prices have begun to exceed prices in the Agreement. The graph would seem to indicate that prices lower than those in the Agreement might reasonably be obtained for purchases from Mid-C. However, it must also be recognized that transmission capacity is constrained to Idaho Power's system from Mid-C in the months of July-August, making purchases from Mid-C an unrealistic option.

On Attachment A, Staff also plotted forward prices for Palo Verde from the beginning of 2007 through June 19, 2008, since Idaho Power would most likely have to make market purchases from the east side of its system in the peak summer months. Palo Verde prices are a better indicator of east-side prices. In comparison with Palo Verde forward prices, the contract rate of $92.25 has been higher for most of the past 18 months for June and July deliveries in 2010 and 2011, but lower than August forward prices.

It is impossible to judge whether forward prices over the past 18 months will be an accurate indication of forward prices in the future. Prices could continue to rise or they could fall. Nevertheless, forward prices do give an accurate indication today of the price at which counterparties will agree to deliver power in the future. Based on forward prices, it appears that the PPL EnergyPlus contract price is attractive for the month of August, but a bit high for the months of June and July.

Gas-fired Generation

As stated previously, Idaho Power's 2006 IRP assumes that all of the Company's existing gas-fired generation will be operating in June-August of 2010 and 2011, yet a deficit of at least 83 MW still exists. To satisfy that 83 MW deficit with gas-fired generation, Idaho Power would have to add additional generation capacity.

In terms of cost, Idaho Power states that the estimated July 2010 operating costs of its gas-fired combustion turbines used in preparation of the May 29, 2008, Operating Plan were approximately $119 per megawatt hour for Danskin units 2 and 3, $107 per megawatt hour for Bennett Mountain, and $100 per megawatt hour for Danskin unit 1. New gas-fired generation would have similar costs; therefore, new gas-fired generation would be more costly than the PPL EnergyPlus Agreement.

DSM, Peak Reduction

Irrigation and air-conditioning account for a significant part of the Idaho Power's peak summer load. The Company has implemented peak-period demand reduction programs for each of these load sectors. Under the A/C Cool Credit program, air-conditioning is cycled off during heavy load hours in the June, July and August months. Peak load reductions due to the A/C cycling program now total about 11 MW. The A/C Cool Credit program had 13,692 participants at the end of 2007, and Idaho Power is targeting 16,000 new participants for 2008.

Under the Irrigation Peak Rewards program, irrigation pumps are shut off during peak summertime load hours. For the current season, Idaho Power is estimating a seasonal average peak reduction of approximately 30 MW. Program changes are being considered for 2009 that would introduce an option for pumps to be shut off by being dispatched based on Idaho Power's load conditions, rather than be shut off according to a predetermined schedule. Such a change, if successful, could cause load reductions in superpeak hours to increase several fold.

Idaho Power has already incorporated forecasted peak-hour reductions from these demand response programs and its other energy efficiency programs into its Integrated Resource Plan. Consequently, if the load reductions anticipated as a result of these programs are not achieved, forecast peak-hour deficits will increase beyond current planning estimates. One exception, however, could be the Irrigation Peak Rewards program. Potential substantial peak load reductions due to the future introduction of a dispatchable option have not yet been accounted for in the Company's planning. While it may be possible that future peak load reductions will be large enough to displace the need for the PPL EnergyPlus contract, to rely on uncertain program results, especially when details of the program changes have yet to be worked out, would be extremely risky.

PURPA Avoided Cost Rates

Although new PURPA generation is not a realistic alternative to replacing the existing PPL Montana contract, a comparison to PURPA avoided cost rates may have some value. The current avoided cost rates for summer, heavy-load-hour PURPA purchases for 2010 and 2011 are shown below in dollars per MWh:

	June	July & August
2010	48.16	78.63
2011	46.34	75.65

Clearly, the $92.25 per MWh rate in the PPL EnergyPlus Agreement far exceeds the current PURPA avoided cost rates. These PURPA rates, however, assume natural gas prices of $6.54/MMBtu and $6.10/MMBtu respectively in 2010 and 2011. Natural gas forward prices for the summers of 2010 and 2011 are currently trading at about $10.20 and $9.80 respectively. Gas prices used for the computation of avoided cost rates are based on forecasts of the Northwest Power and Conservation Council. As part of the Council's work on its upcoming Sixth Power Plan, Staff expects the Council to update its natural gas price forecast later this year, and most likely forecast much higher prices for 2010 and 2011.

Furthermore, the PURPA avoided cost rates shown above are also based on current generic variable assumptions. There is currently a review of generic variable assumptions underway in Case No. IPC-E-07-15 as directed by Order No. 30480. Increased equipment and construction costs will likely result in generic variable changes that will, in turn, cause an increase in avoided cost rates.

Recomputation of avoided cost rates using reasonable generic variable assumptions and current gas forward prices for 2010 and 2011 produces rates for 2010 and 2011of approximately $71 per MWh for June and $115 per MWh for July and August. Based on these avoided cost rates, the $92.25 price in the PPL EnergyPlus Agreement seems reasonable.

Timing of Purchase

The existing PPL Montana agreement which this new Agreement replaces does not expire until the end of the summer of 2009. Idaho Power has elected to execute a contract now, two years in advance of when the new contract would begin. Again, without knowing what electric prices will be in the future, it is impossible to judge whether it is better to sign a contract now or wait until later in hopes that prices will go down. Forward prices have generally been steadily increasing over at least the past 18 months, however. Because the increasing price trend has persisted for so long, Staff does not believe it is unreasonable to lock in prices by signing a new contract this far in advance of expiration of the existing agreement.

Term of the Agreement

The RFP issued by Idaho Power sought power for a five-year term, although it stated that shorter term contracts would be considered. Ultimately, Idaho Power contracted for only a two-year term. The Company has stated that the limited duration of the PPA reduces risk by dovetailing with the Company's ongoing efforts to develop energy efficiency programs that target the Company's summer peak loads and with the Company's planned acquisition of new base load resources in 2012 through its current request for proposals.

Given the high price of the PPA, Staff believes that it is wise to limit the duration of the PPA to only the length of time that the Company can be reasonably certain that the power will be needed. Staff believes that the recent unusually high electric market prices are being driven to a large degree by extremely high natural gas prices. Natural gas prices, in turn, are likely being affected by record oil prices. While no one can be certain how long this situation might exist or whether some relief will ever come, Staff believes that there is at least some chance that prices will subside somewhat in the future. If electric market prices do eventually come down, and if Idaho Power finds that it cannot fully replace the need for this contract with other alternatives, then it can seek another short-term PPA or other resources. While there is some risk that future prices could be even higher, a short two-year term Agreement provides greater flexibility at time when prices are highly uncertain.

Accounting Treatment

Idaho Power proposes that the cost for power acquired through the PPL EnergyPlus Agreement be booked in FERC Account 555, Purchased Power, and that the costs upon contract approval flow through the Company's Power Cost Adjustment (PCA). Until the costs of the contract are included in a general revenue proceeding, any contract costs associated with the Agreement that exceed costs included in the base will be borne by Idaho customers at 90 percent. Staff agrees with the proposed treatment of power costs.

Idaho Power proposes that costs associated with acquiring firm monthly transmission service from Northwestern Energy's transmission system be booked in Book Account 565 Transmission of Electricity by Others. These monthly transmission costs will not flow through the Company's PCA. Staff also agrees with this proposed treatment of transmission costs.

Deposit

As consideration for EnergyPlus's agreement to hold the price in the PPA firm to allow time for Commission review and approval, Idaho Power has paid EnergyPlus a deposit in the amount of $100,000 that is refundable if the Application is approved by the Commission. If the Commission does not approve the Agreement by that deadline, the Company will forfeit the deposit and either party may terminate the Agreement.

If the Commission is unable to approve the Agreement by August 4, 2008 and Idaho Power is forced to forfeit its $100,000 deposit, Staff recommends that Idaho Power not be allowed to recover the deposit amount from ratepayers. While Staff recognizes that PPL EnergyPlus cannot hold its bid price indefinitely, a deposit requirement effectively pressures the Commission to rule on the Agreement in a relatively limited time frame or have customers face the consequences. Allowing ratepayers to be exposed to deposit forfeiture places an unfair burden on them, while completely relieving the Company of all risk.

STAFF RECOMMENDATION

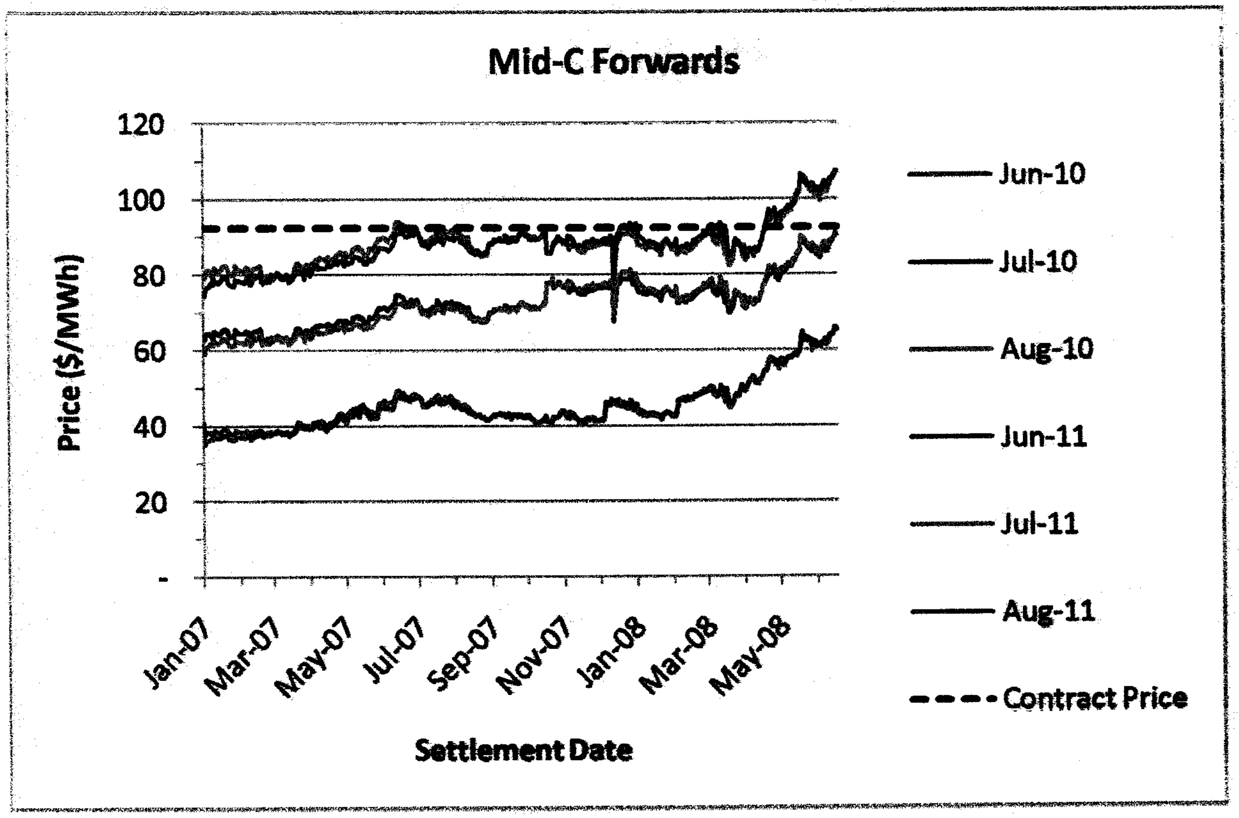
Staff believes that the PPL EnergyPlus contract is needed by Idaho Power to meet its summertime peak loads, and that there are few, if any, other alternatives for satisfying these loads that are as certain or less expensive. The price in the Agreement is extremely high—$92.25 per MWh in the new Agreement vs. $44.50 per MWh in the old agreement that it replaces. While lower prices might be available if the Company waited longer to sign a contract, prices could just as easily be much higher than they are now. Staff recommends that the Commission issue an Order approving the Power Purchase Agreement between Idaho Power and EnergyPlus and approving Idaho Power's requested accounting treatment for inclusion of the power purchase expenses associated with the EnergyPlus Agreement in the Company's Power Cost Adjustment.

Respectfully submitted this 24th day of July 2008.

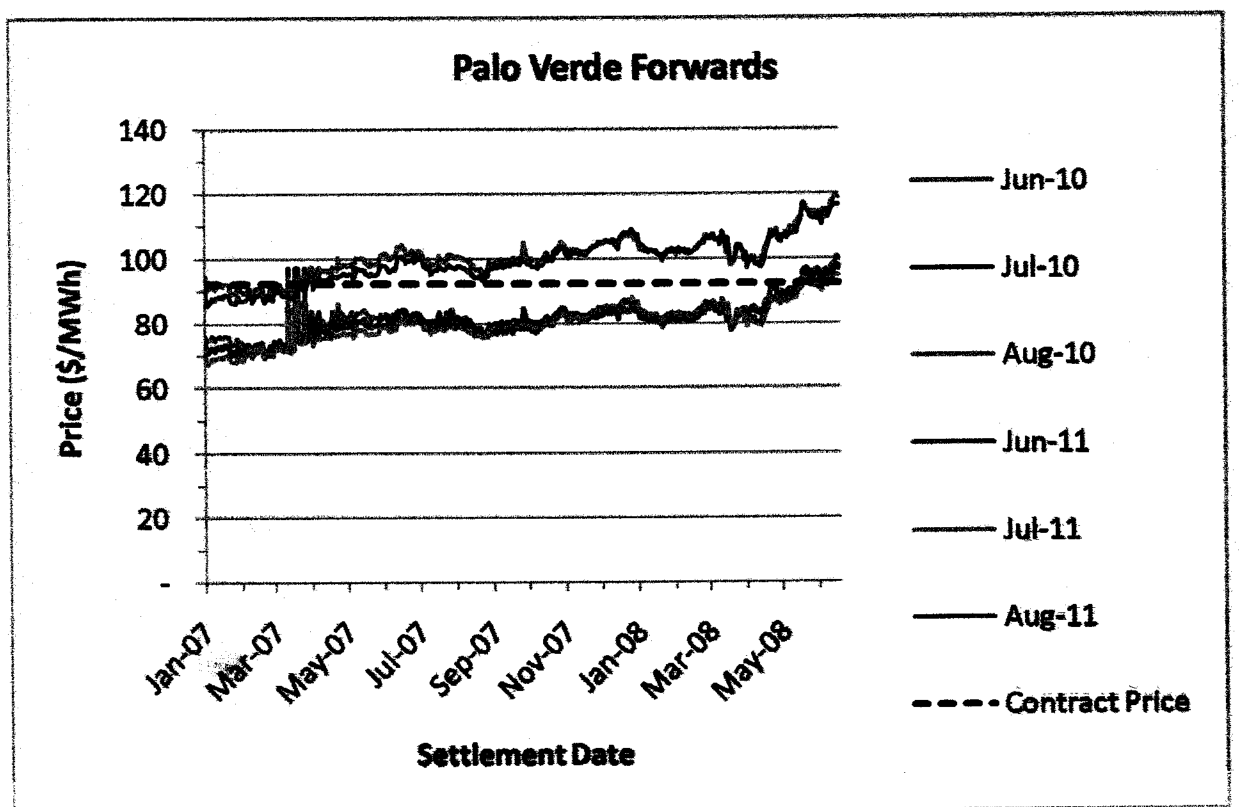
Scott Woodbury
Deputy Attorney General

Technical Staff: Rick Sterling

i:/umisc/comments/ipce08.13swrpskh comments



Mid-C Forwards
120
100
80
60
40
20
-
Price ($/MWh)
Jan-07
Mar-07
May-07
Jul-07
Sep-07
Nov-07
Jan-08
Mar-08
May-08
Settlement Date
Jun-10
Jul-10
Aug-10
Jun-11
Jul-11
Aug-11
Contract Price



Palo Verde Forwards
140
120
100
80
60
40
20
-
Price ($/MWh)
Jan-07
Mar-07
May-07
Jul-07
Sep-07
Nov-07
Jan-08
Mar-08
May-08
Settlement Date
Jun-10
Jul-10
Aug-10
Jun-11
Jul-11
Aug-11
Contract Price

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 24TH DAY OF JULY 2008, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. IPC-E-08-13, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

BARTON L KLINE
DONOVAN E WALKER
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-MAIL: bkline@idahopower.com
dwalker@idahopower.com

JOHN R GALE
COURTNEY WAITES
IDAHO POWER COMPANY
PO BOX 70
BOISE ID 83707-0070
E-MAIL: rgale@idahopower.com
cwaites@idahopower.com

PETER J RICHARDSON
RICHARDSON & O'LEARY
515 N 27TH ST
PO BOX 7218
BOISE ID 83702
E-MAIL: peter@richardsonandoleary.com

DR. DON READING
6070 HILL ROAD
BOISE ID 83703
E-MAIL: dreading@mindspring.com

Jo Nelson
SECRETARY