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UTILITIES COMMISSION

DONOVAN E. WALKER
Corporate Counsel

May 20, 2009

VIA HAND DELIVERY

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-09-11
POWER COST ADJUSTMENT ("PCA") RATES FOR ELECTRIC SERVICE FROM JUNE 1, 2009, THROUGH MAY 31, 2010

Dear Ms. Jewell:

Enclosed for filing please find an original and seven (7) copies of Idaho Power Company's Reply Comments in the above matter.

Very truly yours,

Donovan E. Walker

DEW:csb
Enclosures

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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, 2009, THROUGH MAY 31, 2010.	CASE NO. IPC-E-09-11 IDAHO POWER COMPANY'S REPLY COMMENTS

Idaho Power Company ("Idaho Power" or "Company") respectfully submits the following Reply Comments in response to the Comments filed by the Commission Staff ("Staff"), the Industrial Customers of Idaho Power ("ICIP"), and the Idaho Irrigation Pumpers Association ("IIPA") on May 14, 2009.

With these Reply Comments, the Company urges the Commission to: (1) pass through the entire amount of the 2009-2010 PCA in one year, but mitigate the impact by using the Company's April Operating Plan forecast, resulting in a 10.2 percent increase rather than the requested 11.4 percent; (2) alternatively, if the Commission decides to extend the recovery period of this year's PCA beyond the traditional one-year time period, that the Commission only reduce the present year's recovery to a level equal to or greater than a 7 percent increase over current revenue, with the remainder of this year's recovery moved into next year's deferral balance, and (3) should the Commission decide to carry over any amount to a subsequent year for recovery, a carrying charge that allows the Company to earn its authorized, after tax, rate of return of 8.18 percent should be applied to the deferred balance.

I. INTRODUCTION

Since 1993, Idaho Power's PCA mechanism has operated to mitigate the impact, both positive and negative, of the extreme volatility and large dollar amounts inherent in the variability of actual power supply expenses from historically "normal" power supply expenses. "Normal" power supply expenses are less volatile over time and are recovered through base rates established by the Commission in general rate cases. Actual power supply expenses can vary substantially from one year to the next, and the majority of this variable difference is either refunded or paid through the annual PCA. Because of the inverse relationship between stream flows, which provide hydro generation, and power supply expenses, the PCA amount is dependent, to a large extent, upon the weather. Extended periods of drought, such as that which Idaho has been experiencing since 2001, along with an extended period of growth in the demand for electricity, which the Company has also experienced during this same time period, has resulted in continued strong upward pressure on power supply expenses the Company incurs to meet its obligation to serve. The annual PCA rate change has become one of the regulatory cornerstones relied upon by the Company to maintain its financial health when it must front a tremendous amount of cash for power supply expenses above "normal" levels.

The PCA is designed to implement both rate decreases when net expenses are low and rate increases when net expenses are high. The PCA is filed with the Commission on an annual basis for implementation on June 1 of each year. Since the energy crisis of 2001, the dollar amount and the volatility of power supply expenses has increased dramatically. Historically the PCA has resulted in rate refunds ranging from $16 to $46 million and rate recovery ranging from $4.9 to $240 million (approximate). The largest refund of record occurred in 2006, which was a decrease of approximately $46.8 million. The largest PCA occurred in 2002, recovering approximately $244 million. The PCA amount requested in the Company's filing this year is approximately $203 million above base, the third largest deviation since the establishment of the PCA.

II. ONE-YEAR PCA PASS THROUGH

Both Staff and the ICIP recommend a partial recovery of the PCA cost in the 2009-2010 PCA year. Staff recommends including the unrecovered balance in the following year's PCA. ICIP recommends spreading the $203 million cost over a three-year amortization. Deferring the amounts recommended by Staff and the ICIP until next year, or subsequent years, is not in the public interest, and is harmful to the Company.

A. Staff and ICIP Proposals Deviate from the Commission's Stated Desire for Single Year Recovery of PCA Costs.

The Company firmly believes that the acknowledged integrity of the PCA is due in large part to the Commission's decisions in the past to allow recovery over a one-year timeframe and not burden future PCA rates with carried over, unrecovered amounts.

The Company urges the Commission in this PCA year to continue its historical reluctance to place customers in a situation where they are required to continue paying costs from this year, when unknown water, market, and economic conditions may require additional increases in future years.

The Commission has twice passed through, in one year, a higher PCA amount than the one presented in this case; recovery of $220 million in 2001 was immediately followed by recovery of $244 million in 2002. In the case for the 2002-2003 PCA year, (consolidated Case Nos. IPC-E-02-03 and IPC-E-02-02), the Commission rejected both the Company's securitization proposal (Bonding) and the Staff's proposal, which was similar to Staff's recommendation in this year's case, to reduce the current year's recovery and carry over the balance to the following year. The Commission instead ordered that the entire amount[1] ($255 million) be "approved for recovery within the normal one-year timeframe." Order No. 29026 at p. 16. In rejecting the Company's Bond Application the Commission stated:

> The Commission finds that the public interest is better served in this instance by recovering the vast majority of the $255.9 million authorized in this Order ***over a single year as originally contemplated by the PCA mechanism*** rather than spreading large amounts of recovery over multiple years. We reach this conclusion largely out of our ***concern for uncertainties the future may hold.***

Order No. 29026 at p. 14 (emphasis added). In concluding the issues with regard to the Bonding Application, the Commission went on to say:

> We certainly hope that this is the last year Idaho Power ratepayers will be faced with such extraordinarily high deferred PCA costs. However, as we have learned over the

[1] $11 million for the Irrigation Class (Schedule 24) and $600,000 for the Small General Service Class (Schedule 7) was carried over for recovery into the following 2003-2004 PCA year leaving approximately $244 million for recovery in the 2002-2003 PCA year. Order No. 29026 at p. 17.

past two years, ***there are no guarantees about future streamflows or market prices.*** In short, the Commission does not want to spread large amounts for recovery out over multiple years, and it is not cost-effective to securitize smaller amounts. Tr. at 433. Because mortgaging our future through the issuance of Bonds is not in the public interest at this time, we turn our discussion to other recovery options.

Id. at p. 15 (emphasis added). The Commission extended this same logic into its consideration of recovering the PCA cost over two years, as proposed by the Staff, and ultimately found that, even though very large and with the possibly of imposing hardships upon customers, a one-year recovery was better for customers and the Company:

> While the Commission understands the reasons why cost recovery or some portion thereof might be amortized over time, the Commission largely declines to adopt this recommendation. As with any requested rate increase, the Commission must balance the needs of the Company to maintain its financial viability and recover its reasonable expenses with customer concerns of fair rates and rate stability. During the last two years, extraordinary conditions have resulted in large purchase power costs and a low water forecast. Given the amount of purchases the Company has already made, it is reasonable and appropriate for the Company to recover the majority of the $255.9 million approved for recovery ***within the normal one-year timeframe***.
>
> The Commission does not make this decision lightly. We understand the hardships that continuation of last year's large rate increase will impose on customers. However, as we stated in our Energy Bonds findings, ***the Commission is very concerned about the unknown water and market conditions that lie ahead. We are also reluctant to create a situation where customers are required to continue paying costs from this year on top of whatever increases may be required in future years.*** Passing through the majority of the PCA costs in one year will be unpleasant and create a hardship for some customers, but it will clear the way for significant rate decreases in the future

> barring any unforeseen circumstances. ***The PCA was designed for a single-year recovery of PCA costs and we continue to honor its original design.***

Order No. 29026 at pp. 16-17 (emphasis added).

In a similar fashion, the Commission, in the previous year's (2000-2001) PCA filing, which was the second largest on record, rejected the Staff's proposal to defer the forecasted amount until the following year's PCA stating that although it understood the purpose in recommending deferral of recovery of a PCA component to mitigate an anticipated large rate increase, "deferring this amount would only increase next year's PCA rate." Order No. 28722 at p. 6. The Commission went on to order:

> The Commission finds it reasonable and in the public interest to allow recovery of the forecasted power supply costs in the current 2000-2001 PCA. ***The PCA was designed to allow consistent recovery of anticipated power supply costs.*** The Commission chooses not to deviate from the established formula in this case. Given the volatility and high wholesale prices in regional power markets, the Commission finds immediate recovery of the forecast amount is reasonable. ***This recovery also assures the financial community that the Company will be allowed to recover its reasonably incurred power supply costs.*** Moreover, immediate recovery of this forecasted amount will minimize the interest costs that would otherwise be included in next year's PCA.

Order No. 28722 at p. 6.

Staff bases its recommendation to defer a large portion of the current PCA forecast into next year's PCA in large part on the risky assumption that the next PCA year will be better. In fact, Staff's assumptions go to the core of the same risks the Commission cited when it decided in past years not to mitigate past PCA amounts: the unknown future rate impacts associated with stream flows, markets, and the economy. Staff attempts to dismiss the risk by saying that it is only because of the change in the

PCA methodology. Staff acknowledges that their recommendation essentially shifts a large amount into the true-up balance for the following year, ruining the effect of the better forecast methodology so recently agreed upon by all parties in a collaborative process and approved by the Commission. Staff Comments at p. 5. What is left unsaid is the fact that variations in hydro generation and other concerns that impact power supply expense reflected in the PCA represent only a portion of the risk that places upward pressure on rates.

As everyone is well aware, the Company is in the midst of several large capital-intensive projects. These include, but are not limited to: Hells Canyon Relicensing, Advanced Metering Infrastructure ("AMI") Implementation, the Langley Gulch Power Plant, as well as substantial transmission projects such as Gateway West, Boardman to Hemingway, and the Hemingway Substation. All of these large projects require capital, require cash flow, and represent certain "risks" of upward rate pressure in much the same way that power supply costs do. The Company believes these "risks" should also be considered when the Commission is deciding whether to defer large portions of power supply expenses into the future, when in the past it has declined to do so stating, "the Commission is very concerned about the unknown water and market conditions that lie ahead. We are also reluctant to create a situation where customers are required to continue paying costs from this year on top of whatever increases may be required in future years." This statement is true not only in reference to PCA costs and increases but also in reference to costs and increases from these other sources.

B. Staff and ICIP Proposals Immediately Reject the PCA Methodology Established Through a Collaborative Workshop Process.

The PCA methodology was recently revised through a collaborative workshop process to use the Company's Operation Plan for the basis of the forecast. This was done to improve the accuracy of the forecast or the forward looking aspect of the PCA. *See*, Order No. 30715, Case No. IPC-E-09-19. Because of the true-up component of the PCA, the better the forecast, the less there is in the true-up balance to recover the following year. By splitting the recovery and pushing partial recovery into a future time period, the gains made by a better forecast are eviscerated. The next PCA will automatically start off in the hole by whatever amount from this year is deferred into that period, plus the carrying costs of that deferral. Granting recovery in one year, as has been the historical practice of the Commission, removes this problem and gives the newly approved PCA methodology a chance to work as intended.

C. Staff and ICIP Proposals Adversely Impact the Company's Cash Flow.

The proposals presented by Staff and by ICIP will reduce cash flow from operations for at least one year and up to two years for the ICIP's proposal. Under Staff's proposal, Idaho Power would not fully recover until May 2011, and under the ICIP proposal, the Company would not fully recover until May 2012. The adoption of either deferral approach will negatively impact the financing of planned capital projects, including the Commission-supported AMI project which is scheduled for implementation over the next three years. The reduction in available cash will cause the Company to become further leveraged and will continue to erode the Company's credit metrics for cash flow coverage ratios. The deferral proposals by Staff and ICIP will significantly increase perceived regulatory risk by undermining the financial community's current expectations related to predictability, consistency, and stability of recovery of costs through the PCA Mechanism.

Net Power Supply Cost is the Company's most significant expense and the most variable. From a cash flow perspective, the proposals suggested by Staff and the ICIP introduce cash flow risks of recovery associated with this significant expense. The acceptance of the Staff and ICIP proposals has the potential to increase the regulatory risk assessment of the Company's creditworthiness because the PCA mechanism is generally perceived as a beneficial arrangement that allows for significant cost recovery outside of a fully litigated rate proceeding. Such cost recovery mechanisms are extremely beneficial to the Company's creditworthiness and financial security, and are enhanced by a PCA that passes through those costs in the current year, as has been the historical practice in Idaho.

D. Mitigation Based Upon an Updated Operating Plan Would Allow for Single Year Recovery of PCA Costs, Would be Consistent With the Newly Approved PCA Methodology, and Would Provide Reasonable Cash Flow.

The Company filed a PCA rate increase of 11.4 percent above current revenue based upon the March Operating Plan. The Company has since updated the PCA amount based upon the April Operating Plan and provided this information to Staff. The updated PCA amount reflects a higher stream flow forecast resulting from additional late-season precipitation, and thus a reduced amount for recovery in the forecast component of the PCA than the amount which was filed with the Application. This change in the stream flow forecast results in a reduction of the Company's requested rate increase to 10.2 percent or $84.3 million, and provides a reasonable level of mitigation to the requested rate relief amount justified on the basis of the changed conditions.

The Company proposes that this 10.2 percent PCA rate increase be passed through in the current PCA year. Granting a recovery of this magnitude will not only maintain the historical integrity of the PCA and validate the Commission's previous difficult decisions to grant recovery in the current PCA year, but will also better align costs and revenue; provide much needed cash flow at a time when adequate cash flow is of extreme importance to the financial health of the Company; and in the current economic climate of shaky financial institutions where capital is much harder to come by, will send the appropriate message to both sectors of the financial community, those who set the Company's credit rating and those who actually provide the capital.

III. OTHER RECOVERY ALTENATIVES

As stated above, the Company strongly urges the Commission to maintain its position that the PCA was designed for a single-year recovery of PCA costs and to pass through the mitigated rate increase of 10.2 percent. However, if the Commission determines otherwise, the Company proposes, as an alternative, that the 7 percent cap established by the Commission and referenced by the ICIP in its Comments should be considered as the minimum level of recovery for the 2009-2010 PCA year. Additionally, if the Commission finds it in the public interest to defer recovery of any amounts into future years, the Company agrees with ICIP's assertion that an appropriate carrying charge on the difference should be included.

IV. CARRYING CHARGE

In order to limit the financial uncertainty and perceived risk associated with the collection of PCA-related expenses, the Company requests that the Commission grant full recovery in the current PCA year, and give the new methodology approved by Order No. 30715 a chance to operate. If this is not possible, the uncertainty created by deferring recovery into future periods can be partially mitigated by providing an appropriate return on any PCA balances explicitly deferred by the Commission by increasing the allowed carrying charge from the current 2 percent deposit rate to a rate allowing the Company to earn the rate of return granted in the Company's most recent general rate case of 8.18 percent. *See*, Order No. 30722. The additional unanticipated deferral will have a negative impact on both cash flow and earnings for the Company. A carrying charge of 8.18 percent, if it properly includes a gross up for the equity return component, will at least alleviate the earnings shortfall. While this will not create the needed cash flow, it may reduce the perceived regulatory risk associated with a deferral of expenses that have historically been recovered in one year.

V. IIPA COMMENTS

The IIPA expresses concerns regarding the limited time available in a PCA proceeding to review Idaho Power's system power purchase and sale transactions and requests that a workshop or some other forum be convened to review the same. The Company submits that workshops are unnecessary in this instance, and would merely be a vehicle for delay or other mischief.

The IIPA did submit a substantial number of discovery questions in this case, 88 questions to be exact – many of which had multiple subparts and all of which came in to the Company less than two weeks before the comment deadline for the case, even though the Company's case had been filed with the Commission and provided to the IIPA since April 15, 2009.

Nearly all of IIPA's questions related directly to detailed information surrounding particular purchases and sales of energy, and energy trading generally. To facilitate understanding, Idaho Power personnel – including the trading floor supervisor – met with IIPA and IPUC Staff to discuss various transactions that were the subject of IIPA's discovery. During this meeting, the Company went line-by-line through a majority of the written discovery questions submitted by the IIPA and provided solid rationale and rational explanations for all questions asked.

By its own statement in its Comments, IIPA has not found incidence of imprudence. This is confirmed by Staff in its review and Comments, as well as its active participation in the meeting where IIPA's discovery questions were reviewed and discussed. IIPA has an active member on the Company's Customer Advisory Group ("CAG") and was part of the development of the Risk Management Policies and Procedures as well as Case No. IPC-E-01-16, which established the same. Idaho Power is willing to spend additional educational time with IIPA, and is willing to give IIPA time at the CAG meeting to discuss any concerns. However, the Company believes the workshops, as proposed by the IIPA, are unnecessary and an opportunity for mischief.

VI. CONCLUSION

The Company continues to urge that the traditional one-year recovery is appropriate and in the public interest. However, in these Comments, the Company has outlined some options that should be considered if the Commission determines to defer recovery of a portion of this year's PCA expense beyond the traditional one-year time period. This Commission has openly struggled with the extremely difficult question of PCA rate deferrals before, and has on two prior occasions concluded that it was in the public interest to not defer costs into the future. In both of these instances, the customer cost and the PCA amount was larger than it is in this case. The Company respectfully urges the Commission in this case to reach the same conclusion and pass through the mitigated 10.2 percent rate increase for the 2009-2010 PCA year.

Respectfully submitted this 20th day of May 2009.

DONOVAN E. WALKER
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 20th day of May 2009 I served a true and correct copy of IDAHO POWER COMPANY'S REPLY COMMENTS upon the following named parties by the method indicated below, and addressed to the following:

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