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LISA D. NORDSTROM
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May 21, 2010

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-10-12
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, 2010, THROUGH MAY 31, 2011

Dear Ms. Jewell:

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

Very truly yours,

Lisa D. Nordstrom

Lisa D. Nordstrom

LDN: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, 2010 THROUGH MAY 31, 2011.	CASE NO. IPC-E-10-12 REPLY COMMENTS OF IDAHO POWER COMPANY

COMES NOW, Idaho Power Company ("Idaho Power" or the "Company") and hereby responds to the Comments of the Commission Staff, Industrial Customers of Idaho Power ("ICIP"), and the Idaho Irrigation Pumpers Association ("IIPA") filed on May 18, 2010.

I. BRIDGER COAL COSTS

A. Idaho Power Is Revenue Neutral to the Use of Third Party Coal Suppliers.

On pages 5-6 of its comments, the ICIP argues that because the sales price of Bridger Coal includes an operating margin equal to Idaho Power's authorized rate of return, the Company has a financial disincentive to purchase coal for the Bridger Plant from a third-party. The ICIP's conclusion that Idaho Power has a financial disincentive to purchase coal for the Bridger Plant from a third-party like Black Butte Coal Company ("BBC") is wrong. In fact, the ICIP identifies the very reason why its conclusion is wrong on pages 4 and 5 of its comments: "Idaho Power treats the mining costs at BCC like any other regulated expense for which it earns a rate of return." This statement is true. Idaho Energy Resources Company's ("IERCO") fixed investment in plant and equipment at Bridger Coal Company ("BCC") is treated in the same manner as Idaho Power's other rate base for rate making purposes. The ICIP then states that the "sales price for BCC coal used in the NPSE includes an operating margin, equal to the overall rate of return authorized in general rate cases where IERCO/BCC operations are treated as part of the regulated activities of the Company," and that "Idaho Power adjusts the sales price periodically as updated BCC mining expense data becomes available." What the ICIP fails to recognize is that the sales price for BCC coal is adjusted based upon changes in mine operating costs rather than changes in IERCO rate base.

The "profit" or allowed return, although expressed by the ICIP as a per ton value, is not variable with output. It is rather a set return on fixed investment which is divided by the tons of coal to be sold to the Bridger Plant during the test period. The sales price per ton for coal sold by BCC to the Bridger Plant is periodically set at a level designed to achieve, as closely as possible, the targeted return on investment. This targeted return on investment ("Margin") is established in general rate cases by multiplying the IERCO rate base by the weighted average cost of capital. The Margin is added to the expected mine operating costs to arrive at the revenue needed from coal sales. Optimizing the surface and underground production levels from BCC along with purchasing BBC to achieve a long-term fuel supply strategy is the justification for purchasing BCC coal -- not an embedded profit incentive as asserted by the ICIP.

Idaho Power and PacifiCorp have a significant investment in the BCC mining operation which has benefited customers with a long-term, reliable and fairly priced source of fuel. The fixed investment costs of BCC (including return dollars) should continue to be recovered in rates, as these investments were made for the benefit of Idaho Power's customers. The Company's long-term fuel supply strategy balances the desire to minimize cost while ensuring a reliable supply over the life of the plant. The long-term investment in BCC helps accomplish this balance due its close proximity to the Bridger Plant and its many years of recoverable reserves.

B. Idaho Power Has Properly Calculated the Decremental Cost of BCC Surface Coal.

The ICIP argues that the decremental cost analysis prepared as part of Oregon Annual Power Cost Update, Case No. UE-214, "miscalculates the amount that ratepayers would save if Idaho Power stopped mining BCC surface coal." ICIP Comments at 10. The ICIP suggests that the decremental cost quantified in the analysis should have included mining costs plus the Margin. The ICIP's conclusion in this instance again demonstrates its lack of understanding of the manner in which BCC coal is priced. As described in the previous section, because BCC coal pricing reflects an authorized return on investment and variable components (operating costs), reducing surface coal production avoids only the variable cost component. The fixed investment in plant and equipment does not go away with reduced production. Therefore, the most accurate method of computing a decremental cost for BCC surface coal production would be the method used by Idaho Power in Case No. UE-214 which does not include the Margin.

C. Revising Net Power Supply Expense ("NPSE") to Reflect the Updated Mine Plan Amounts to Forecast Shopping.

The ICIP suggests that Idaho Power should revise its base NPSE determined by Order No. 31402 in Case No. IPC-E-10-1 to reflect BCC coal prices from an updated mine plan. The Company's standard practice when calculating base level or forecasted NPSE is to include the most currently available information at the time each filing is prepared. The Company believes this approach is fair, just and reasonable and results in an accurate reflection of the Company's costs.

In Case No. IPC-E-10-01, filed on January 1, 2010, the Company determined the 2010 base level NPSE using the most current mine plan (created in July 2009) available at the time the filing was prepared. The 2010 PCA forecast, which was filed almost three months later on April 15, 2010, included an updated mine plan that was prepared in late 2009. Both filings include reasonable forecasts of coal prices that will most certainly differ slightly from actual coal prices. Any deviations that do occur will be captured in the true-up of the PCA.

D. Conclusion

Idaho Power has provided testimony, a detailed white paper, and extensive discovery to support the full recovery of its BCC coal costs. Submitted with the Company's Base Level NPSE Reply Comments in Case No. IPC-E-10-1, the white paper explains Idaho Power's coal supply strategy and why it is the least-cost fueling plan. This discussion details the Company's diversified approach, current supply for the Bridger Plant, surface mine issues, coal quality and coal blending. The white paper also discusses why Black Butte does not constitute a market and the policy considerations of the "lower of cost or market" rule. Company witness Tom Harvey's testimony further outlines the Company's coal procurement strategy, explains why there is not a less expensive alternative coal supply, and discusses why the coal prices for the Bridger Plant are prudent and reasonable expenses.

As Staff succinctly noted on page 11 of its Comments, Bridger Coal Company profits flow to Idaho Power subsidiary IERCO and IERCO profits flow back to customers in Idaho Power's general rate cases. Even the ICIP admits there is little risk of cross-subsidization with this affiliate relationship. Because the Company's long-term fuel supply strategy results in a reasonable, reliable and fair-priced coal supply for the Bridger Plant, the $63.7 million of Bridger coal costs should be recovered in normalized base power supply costs as proposed.

II. LOAD GROWTH ADJUSTMENT RATE (LGAR)

The current LGAR was derived under the stipulated methodology approved by the Commission in its Order No. 30715 issued in Case No. IPC-E-08-19. The LGAR represents the amount of base level power supply expense and specific generation-related cost recovery that is included in the Company's base rates. In periods of load growth, the LGAR eliminates the double recovery of power supply expenses and the potential for double recovery of other specific generation-related costs that may or may not be increasing. In periods of load decline, the LGAR is consistently applied to ensure that the Commission-allowed base level power supply costs are appropriately accounted for in the calculation of the PCA. That is, the LGAR recognizes that the amount of power supply expenses and other specific generation-related costs recovered through the Company's base rates changes as loads increase or decline. Therefore, a "load growth adjustment" must be made in order to properly estimate power supply expenses at normalized load levels.

A. <u>The LGAR Adjusts Actual Costs to Reflect Normal Weather and/or Water in Periods of Negative Load Growth, Neither of Which Are "Phantom" Costs.</u>

The IIPA argues that the LGAR should not be applied to declining loads and that doing so results in the recovery of "phantom" costs. To illustrate its point, the IIPA provides an example that concludes that "the Company wants to be reimbursed $2.663 cents" for each kWh of load decline below the base level. The IIPA's conclusion is incorrect. The PCA mechanism is used to calculate the deviations between actual power supply expenses and normalized power supply expenses. The LGAR is a necessary component of the PCA mechanism that adjusts actual power supply costs to reflect normal load levels. The LGAR does not result in the recovery of "phantom" costs in times of declining loads; rather, the LGAR simply provides consistency between the numerator and denominator of the PCA rate determination. In periods of declining growth, the adjustment reflects normalization of weather and water conditions to properly estimate power supply expenses at normalized load levels.

B. <u>The LGAR Must Be Reciprocal to Prevent Double Counting.</u>

On pages 15 and 16 its comments, the ICIP clarifies what it believes the purpose of the LGAR to be with the following statement: "In other words, if the PCA were not adjusted to take into account the revenues the Company receives from new customers or increased load, the Company would again receive them automatically in the PCA as higher power supply costs." The ICIP's logic can also be applied to explain the use of the LGAR in times of decreasing loads. That is, if the PCA were not adjusted to take into account the reduced revenues from decreased load, the customer would receive double benefits automatically in the PCA. First, customers would receive the benefit of actual reduced costs. Second, customers would receive an additional benefit when the PCA rate was computed based upon a load that was higher than actually occurred.

When load change is positive the LGAR is used to calculate the level of additional cost recovery to be removed in the true-up calculation in order to reflect comparable actual power supply costs at normal load levels. Likewise, when load change is negative the LGAR is used to calculate the level of additional cost recovery to be added to the true-up calculation in order to reflect actual comparable power supply costs at normal load levels.

C. <u>The LGAR Is Not a Decoupling Mechanism</u>.

The ICIP suggests that the use of the LGAR in periods of load decline works like a second decoupling mechanism. The LGAR does not guarantee a certain level of revenue recovery nor does it act as a decoupling mechanism; rather, it is used as part of an adjustment to ensure the numerator and denominator in the annual PCA calculation are consistent (at normalized load levels).

The LGAR adjusts actual power supply expenses to be comparable to actual power supply expenses at a normal load level. The adjusted expense is then divided by a normal sales level to determine the PCA true-up rate. The load growth adjustment is not a decoupling mechanism, it is simply an adjustment required to establish consistency between the numerator and denominator of the PCA rate determination.

D. Conclusion

The purpose of the LGAR remains constant whether loads increase or decline – that is, to prevent double counting by adjusting actual power supply expenses to reflect actual comparable power supply costs at normal load levels. As verified by the Commission Staff, Idaho Power has accurately calculated the LGAR per the Stipulation approved by the Commission in Order No. 30715. Moreover, the application of the LGAR to periods of load decline is consistent with the 2009 PCA, which included a load growth adjustment that was based upon six months of load growth and six months of load decline, resulting in net positive load growth of 119,299 megawatt-hours. This can be seen on page one of Exhibit No. 1 in Case No. IPC-E-09-11.

III. INTEREST CALCULATION

In Staff comments, Staff recognized that deviation of actual and Base Net Power Supply costs as demonstrated in Staff's attachments C, line 62, page 2 of 2 and attachment D, line 62, page 2 of 2 are identical in total for the PCA year. This is consistent with the Stipulation Agreement which states that for "PCA deferral reporting, the Base Net Power Supply Expenses will be distributed to monthly values based upon a monthly revenue shape" and "that this adjustment will not affect the total PCA year calculation of the deviation between actual and Base Net Power Supply Expenses but will improve comparability between interim and annual financial reporting periods." Staff also noted that the redistribution caused $215,027 of additional interest. On page 5 of its Comments, Staff quoted Order No. 30715 stating "the remaining issues addressed in the Stipulation do not affect the overall PCA cost responsibility between customers and shareholders" and as such, the Commission envisioned no cost difference as a result of the redistribution. Therefore, any additional interest should be removed.

However, "the remaining issues" referred to in the Order did not include the impact of the resulting interest. Therefore, Idaho Power believes that removal of $215,027 of interest based on Staff's interpretation of the Order is in error and is contrary the accepted interest calculation methodology. Calculating the interest based on Staff's methodology would also be contrary to the Company's actual cash inflows and outflows and would require the Company to maintain two sets of books.

IV. CONCLUSION

Based on the evidence in the Commission's record and for the reasons described above, Idaho Power Company respectfully requests the Commission issue its Order: (1) implementing the Schedule 55 Power Cost Adjustment rates as shown in Application Attachments Nos. 1 and 3 to be effective June 1, 2010, through May 31, 2011, and (2) authorizing increased base rates per the terms of the settlement Stipulation approved by Order No. 30978.

Respectfully submitted this 21st day of May 2010.

Lisa D. Nordstrom

LISA D. NORDSTROM
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 21th day of May 2010 I served a true and correct copy of REPLY COMMENTS OF IDAHO POWER COMPANY upon the following named parties by the method indicated below, and addressed to the following:

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