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May 18, 2010

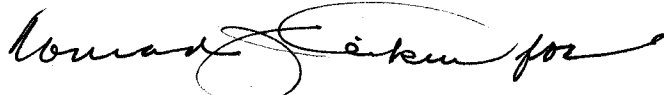
Jean D. Jewell, Secretary
Idaho Public Utilities Commission
PO Box 83720
Boise, Idaho 83720-0074

Re: Case No. IPC-E-10-12

Dear Ms. Jewell:

Enclosed for filing in the captioned matter, please find the original and seven (7) copies of
Idaho Irrigation Pumpers Association, Inc.'s Protest in the above matter.

Sincerely,


ERIC L. OLSEN

ELO:nj
Enclosures
cc: Service List

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Attorneys for Idaho Irrigation Pumpers Association, Inc.

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION)	
OF IDAHO POWER COMPANY FOR)	CASE NO. IPC-E-10-12
AUTHORITY TO IMPLEMENT POWER COST)	
ADJUSTMENTS ("PCA") RATES FOR)	
ELECTRIC SERVICE FROM JUNE 1, 2010)	
THROUGH MAY 31, 2011)	
_____)	

IDAHO IRRIGATION PUMPERS ASSOCIATION, INC.'S PROTEST

IDAHO IRRIGATION PUMPERS ASSOCIATION, INC. ("IIPA"), by and through its attorneys, hereby respectfully submits, pursuant to Commission Rule 203, the following protest with regard to Idaho Power Company's ("IPC") proposed establishment of a new Schedule 55 implementing the 2010-2011 Power Cost Adjustment ("PCA").

INTRODUCTION

The IIPA hereby protests as inappropriate IPC's inclusion of the Expense Adjustment of \$23,680,328.05 found on line 13 of its Exhibit No. 1 in this case. This adjustment is not for costs that were actually incurred by Idaho Power. Rather, because of the peculiarities of Idaho's and the Nation's present economic situation, this adjustment represents a recovery of costs that IPC did not incur. The recovery by IPC of this phantom Expense Adjustment is unquestionably unjust and unreasonable and should be disallowed by the Commission.

The IIPA also joins in the continued protest of the Industrial Customers of Idaho Power ("ICIP") with respect to IPC's inclusion of the increased costs of surface coal mined from IPC's affiliated coal mine and used at the Jim Bridger coal fired Power Plant ("Bridger"). The \$24.8 million increase in the Bridger coal costs are not prudently incurred for the reasons stated by the ICIP. Thus, the 2010 Net Power Supply Expenses ("NPSE") should be reduced from \$63.7 million to approximately \$38.9 million, with its corresponding effect on the calculation of the 2010-2011 PCA in this case.

ARGUMENT FOR DISSALLOWANCE OF EARG/LGAR

The purpose of the PCA is to recover variations in actual power supply expenses that differ from the previous test year calculations. The emphasis here should be on actual power supply expenses and not phantom power supply expenses. The PCA itself was meant to be "symmetrical" in that it was designed to give the Company more money/revenue when its power supply expenses went up (as compared to the particular test year) and less money/revenue when its power supply expenses went down (as compared to the particular test year). However, this symmetry was only in relationship to the actual power supply expenses themselves, not to the proxy Expense Adjustment Rate for Growth ("EARG"), sometimes called the Load Growth Adjustment Rate ("LGAR").

Under the PCA, it is appropriate for IPC's customers to pay more when expenses go up, but it is illogical under the PCA to raise rates when usage and associated costs go down. It is also appropriate that the EARG/LGAR offsets to some extent the amount of money that IPC gets in its PCA to reflect the increase in base revenue that IPC experiences in periods of load growth. However, it again makes no sense to increase the revenue that IPC gets in the PCA in periods of

declining load, especially when the sales revenue is only decreased at the average cost, but all of the expenses are saved in period of declining load at the margin.

The sole purposes of the EARG/LGAR it is to prevent the double recovery of a single cost. When load growth occurs over the sales in the “base case,” costs go up at the margin to serve the new load, and these costs become part of the PCA calculation. The PCA captures these additional expenses as actual costs to compare with the costs already included in the “base case.” These additional costs will be recovered from all ratepayers. However, the growth related sales also brought additional growth related revenues that were not included in the “base case” as well. A part of those additional revenues is associated with power supply costs. If the Company was allowed to collect the additional base revenues from load growth, plus all of its marginal supply costs associated with that growth in the PCA, then it would be collecting twice for the same cost. Thus, the EARG/LGAR comes into play in order to credit to the PCA that portion of the additional base revenues deemed to be related to power supply costs. It prevents IPC from collecting growth related power supply expenses through a PCA surcharge and then also collecting base revenue from that new load to cover the same power supply expenses included in the PCA.

In this case, load growth has not occurred, the associated cost of growth has not occurred, and there has been no new base revenue to collect these new, phantom power supply expenses. Why should the EARG/LGAR in this case increase the PCA revenue by \$23.7 million for growth, and costs of growth, that never occurred? The collection of an expense that has not been incurred by IPC is against all principles of fairness, let alone the Commission’s regulatory mandate.

Although the PCA was designed to be symmetrical, the EARG/LGAR was not. It is appropriate that the PCA increase or decrease as IPC's power supply expenses increase or decrease. However, when the power supply expenses decrease because the load has dropped, the EARG/LGAR should never be increased to make up for expenses that were never incurred. The EARG/LGAR was never meant to be symmetrical and it does not make sense that it should be symmetrical. Because of the sustained growth that Idaho Power has experienced over the last 20-30 years, the idea of a load decrease was far from everyone's mind when it was developed. Even the name of the EARG (Expense Adjustment Rate for Growth) or LGAR (Load Growth Adjustment Rate) demonstrates that this is a one-way adjustment related to growth. If it had been conceived of as a symmetrical adjustment, it would have been more properly called an Expense Adjustment Rate for Load.

The EARG/LGAR was designed to insure that there was no double recovery of the additional power supply expenses due to load growth. There are no "additional" power supply expenses associated with a reduction in load—simply, less coal is burned, there is less power purchased, or there are more sales for resale that brings in additional revenue.

There are numerous places in Commission Orders, as well as in testimony presented before the Commission, that demonstrate that the intent of the EARG/LGAR was to address the issue of increased power supply expenses due to load growth and the offsetting of additional revenue that comes with this new load. There has never been mentioned in a Commission Order the intent of the EARG/LGAR to reflect any type of adjustment for a reduction in system load, let alone to be an adjustment to increase IPC's revenues when loads decreased. This fact is evident in Staff witness Hessing's testimony in Case No. IPC-E-06-8¹:

¹ See Hessing's Direct testimony in Case No. IPC-E-06-8 page 4, beginning on line 9.
Idaho Irrigation Pumpers Association, Inc.'s Protest - 4

Q. Please discuss Idaho Power Company's initial PCA filing.

A. Idaho Power Company filed for a PCA in 1992 and it was approved and implemented in 1993 with some modifications. Idaho Power's 1992 filing was made to address the problem of fluctuating water conditions that caused widely varying power supply costs. When water conditions were poor, power supply costs were higher than what was authorized for recovery in rates. A general rate case provided no relief from high power supply costs associated with below normal water conditions since water conditions and power supply costs are normalized in a general rate case.

Staff observed that in the Company's original PCA proposal, variations from the normalized costs of power supply were due to water conditions and power supply cost increases caused by load growth. Staff believed that load growth costs could be significant and that load growth costs were not the kind of costs that the PCA should recover. Staff proposed a load growth adjustment mechanism in the PCA that removed actual power supply costs associated with load growth by multiplying the amount of load growth by the marginal cost of power supply and subtracting the result from actual power supply costs. Staff approximated the marginal cost of power supply as 16.84 \$/MWh which was the average of the variable costs of Valmy and Boardman, the company's two highest operating costs at that time. In that case Staff also argued that without the adjustment the Company would double recover the normalized cost of power supply because it was included in base rates and in actual booked power supply costs that accumulated in the PCA true up mechanism. (Emphasis Added)

Hessing's testimony in Case No. IPC-E-06-8 that the EARG/LGAR was designed to prevent double recovery of power supply expenses did not stand on its own, but was fully supported by the Company testimony in that same case. IPC witness Said made numerous references to the fact that EARG/LGAR was designed to prevent the double recovery of growth related power supply expenses in his Rebuttal testimony in that same case. For example²:

... . Adoption of an adjustment mechanism based on expense levels created the potential for double collection of power supply expenses from customers. Idaho Power believes that the intent of the load growth adjustment rate was to eliminate the possibility of double collection of power supply expenses.

² See Said's Rebuttal testimony in Case No. IPC-E-06-8 page 3, beginning on line 6.
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Q. Do the other witnesses in this case agree that eliminating the possibility of double collection of power supply expenses from customers has been a historical intent of the load growth adjustment rate?

A. Yes. ...

Later in his testimony in that same case, IPC witness Said summarizes his testimony and makes an even stronger case for the IPC's position/belief that the EARG/LGAR is only for purposes of preventing the IPC from double recovering growth related power supply expenses³:

Q. Please summarize your rebuttal testimony.

A. All parties agree that a principal purpose of the PCA load growth adjustment rate is to eliminate the potential for double recovery of power supply expenses. Idaho Power believes this should be the sole purpose of the load growth adjustment. (Emphasis added)

Mr. Said made it very clear what IPC felt was the "sole purpose" of the EARG/LGAR. Given the steady growth that has taken place over the last 20-30 years, there has been virtually no consideration of what happens when growth is negative. Like Mr. Said testified, the sole purpose of the growth adjustment was to insure that there was no double recovery of power supply expenses when there was positive growth (as occurred every year in the past). However, because of a quirk in the calculation that became evident as a result of the current economic crisis, IPC is now proposing to use the EARG/LGAR to collect revenue for expenses it never incurred. Idaho Power is proposing that the result of the EARG/LGAR calculation be negative because the load growth (compared to the base load used in the last test year) was negative.

³ See Said's Rebuttal testimony in Case No. IPC-E-06-8 page 27, beginning on line 11.

In IIPA's Data Request No. 1, IPC was asked whether it was still its position that the sole purpose of the EARG/LGAR in the PCA was to eliminate potential double recovery of power supply expenses. IPC's response was:

Yes and no. Mr. Said's referenced statement was made in the context of growing loads, not declining loads. Further, Mr. Said's statement was focused on the appropriate rate components to be included in the derivation of the load growth adjustment rate ("LGAR") and not the application of the LGAR in the calculation of the PCA.

The current LGAR was derived under the stipulated methodology approved by the Commission in its Order No. 30715 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 a normalized load level, eliminating factors such as weather or stream flow conditions. (Emphasis added)

There are several important issues raised by IPC's response. First, it demonstrates that IPC's position and Said's "statement was made in the context of growing loads, not declining load." Basically, this response is saying that no one, including the IPC, had considered the EARG/LGAR also applied in periods of declining loads. If Mr. Said (or IPC) had felt that there was more than one purpose of the LGAR at the time, he would not have stated that IPC believes that the elimination of the potential for double recovery "should be the sole purpose of the load growth adjustment."

The second part of IPC's response is even more erroneous than the first with respect to now coming up with a new purpose for what was once believed to be the "sole purpose of the

load growth adjustment.” IPC claims that during periods of load decline that the EARG/LGAR somehow appropriately accounts for base level power supply cost in the calculation of the PCA and that somehow it is needed “in order to properly estimate power supply expenses at a normalized load level.” An example is the best way to demonstrate how off base this position is.

Assume: 100 kWh of additional Residential load
 7.5 cents per kWh the additional Residential revenue
 7.2 cents per kWh the cost of Bennett Mountain to produce the extra energy
 2.663 cent per kWh the LGAR

If the load goes up 100 kWh because of Residential usage, then the revenue of IPC goes up \$7.50. The 7.5 cents per kWh rate that is paid includes an amount for power supply costs as well as other IPC costs of providing service. IPC’s power supply costs go up \$7.20 in order to produce the additional energy. The entire amount of the \$7.20 of additional power supply costs is included in the actual costs of the PCA because they were incurred. However, the LGAR lowers these PCA costs by \$2.663 in order to reflect that a portion of the additional revenue collected by IPC was meant to cover power supply costs. Thus, the PCA is increased for all customers by \$4.537 (\$7.20 - \$2.663) to reflect the increase in actual costs and the offset to prevent the double recovery. Under this scenario, IPC’s revenues would have increased \$12.037 (\$7.50 base + \$4.537 PCA recovery) and its expenses would have increased \$7.20 for a positive net impact of \$4.837 (\$12.037 - \$7.20).

Now assume that the load goes down 100 kWh under the same conditions. The revenue to IPC will go down \$7.50—once again, this revenue is not only designed to cover power supply costs, but a host of other costs as well. Additionally, Idaho Power’s expenses will decrease \$7.20, because Idaho Power simply did not incur these costs. If all ends here, IPC will be short \$0.30 compared to if there was no loss of load. From this it can be said that the loss to IPC of reduced load is far less significant than the gains that are realized with respect to increases in

Idaho Irrigation Pumpers Association, Inc.’s Protest - 8

load. However, IPC does not want to end the application of the EARG/LGAR here. IPC wishes to employ it in this loss of load situation in order to erroneously increase its revenues. At the EARG/LGAR rate of 2.663 cents per kWh, the Company wants to be reimbursed \$2.663 cents for this loss of load. The net effect would be that IPC does not lose \$0.30 because of the loss of 100 kWh, but the Company would gain \$2.363 (\$2.663 less \$0.30). What this is also saying is that in the PCA the actual costs went down \$7.50, but IPC only wants to give the ratepayers credit for \$4.837 (\$7.50 - \$2.663) of the reduced cost. IPC would have the customers paying for \$2.663 of phantom costs that it never incurred.

Furthermore, even though there was little or no consideration of the possibility of what the EARG/LGAR calculation would produce in times of declining load, the thought that the EARG/LGAR could ever produce a negative result was rejected by the Commission Staff. In Case IPC-E-07-8, Staff witness Hessing made such a declaration that was never challenged by any party, including the Company. Staff witness Hessing stated on page 18, line 14 of his direct testimony that: "It is not reasonable to apply a negative EARG in the PCA." (Emphasis added.)

The PCA, and thus the EARG/LGAR, was designed to collect only actual power supply related expenses. There is no component of it that is designed to collect fixed cost or any form of "lost revenue". There should be no confusion on this issue based upon the Stipulation filed in Case No. IPC-E-08-19. That Stipulation only addressed the derivation of certain components of the EARG/LGAR. First of all, like any stipulation, it was designed to represent a reasonable compromise of the multiple issues raised—it was not meant as a universal statement of fact regarding each issue in isolation. In part, that stipulation settled a long standing dispute regarding the magnitude of the EARG/LGAR. A methodology/calculation was agreed upon which produced a rate of such a magnitude that, in combination with the rest of the Stipulation,

produced a rate that all parties found acceptable. Although that methodology/calculation contains a rate base component, it should not be assumed that the EARG/LGAR is designed to recover lost revenue associated with lost load—the calculation is simply a means to an end of a long standing argument regarding the magnitude of the rate to be charged in order to avoid the double recovery by IPC. Never in testimony by any party (including the IPC) prior to this Stipulation was there any suggestion that the calculation of this rate should include a rate base component. The methodology/calculation the Stipulation is simply an artificial means to an end that was acceptable to all parties.

CONCLUSION

Based on the foregoing, the Commission must reject the \$23.7 million of phantom expenses IPC has included in this PCA due to the inappropriate and unanticipated application of the EARG/LGAR in this case. On its face, this adjustment is contrary to the regulatory policy of this State. If this amount were to be passed through to the ratepayers, it would be unjust and unreasonable as IPC would be collecting revenue through the PCA for an expense that it never incurred. The PCA is designed to only recover actual power supply expenses incurred for supplying load, not to collect phantom revenue for load that was not served.

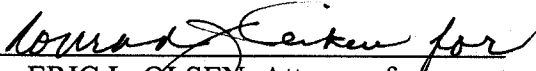
In the alternative, IIPA requests that the Commission reserve the collection of the \$23.7 million until after the workshops are held that were ordered in Order No. 31033 in Case No. PAC-E-10-01, regarding a similar issue. Although IIPA agrees that a workshop that addresses this issue simultaneously for all Idaho electric utilities would be beneficial, the historical record and evidence associated with Idaho Power's PCA and EARG/LGAR are clear and should stand on their own. However, as long as the removal of the \$23.7 million adjustment takes place in

this case, and its final disposition is reserved for the workshops and subsequent proceedings, the ratepayers should not be harmed.

Finally, the Commission should reject IPC's request for \$24.7 million in additional Bridger coal costs as not being prudently incurred and remove the same from the 2010 NPSE number.

DATED this 18th day of May, 2010.

RACINE, OLSON, NYE, BUDGE &
BAILEY, CHARTERED

By 
ERIC L. OLSEN, Attorney for
Idaho Irrigation Pumpers
Association, Inc.

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this _____ day of May, 2010, I served a true, correct and complete copy of the foregoing document to each of the following, via U.S. Mail or private courier, e-mail or hand delivery, as indicated below:

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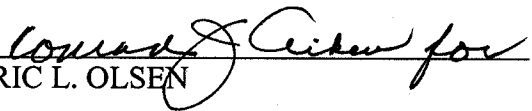
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