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IDAHO PUBLIC UTILITIES COMMISSION

**JULIA A. HILTON**  
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August 19, 2016

**VIA HAND DELIVERY**

Jean D. Jewell, Secretary  
Idaho Public Utilities Commission  
472 West Washington Street  
Boise, Idaho 83702

Re: Case No. IPC-E-16-19  
Deferral and Recovery of Costs Associated with Participation in Energy Imbalance Market – Idaho Power Company’s Application and Testimony

Dear Ms. Jewell:

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

Also enclosed for filing are an original and eight (8) copies each of the Direct Testimony of Timothy E. Tatum and the Direct Testimony of Kathleen Anderson. One copy of each of the aforementioned testimonies has been designated as the “Reporter’s Copy.” In addition, a disk containing Word versions of Mr. Tatum’s and Ms. Anderson’s testimonies is enclosed for the Reporter.

If you have any questions about the enclosed documents, please do not hesitate to contact me.

Very truly yours,

Julia A. Hilton

JAH:csb  
Enclosures

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Attorney for Idaho Power Company

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF IDAHO POWER )  
COMPANY'S APPLICATION FOR ) CASE NO. IPC-E-16-19  
DEFERRAL AND RECOVERY OF COSTS )  
ASSOCIATED WITH PARTICIPATION ) APPLICATION  
IN THE ENERGY IMBALANCE MARKET. )  
\_\_\_\_\_ )

Idaho Power Company ("Idaho Power" or "Company"), in accordance with Rule of Procedure 52, hereby requests that the Idaho Public Utilities Commission ("Commission") (1) acknowledge the potential for long-term operational and net cost savings benefits related to Idaho Power's proposed participation in the western Energy Imbalance Market ("EIM"), (2) authorize the establishment of a regulatory deferral account to track necessary incremental costs associated with western EIM participation, and (3) authorize the Company to recover, in a future rate proceeding, the estimated incremental costs of joining the western EIM.

In support of this Application, Idaho Power represents as follows:

## **I. EIM OVERVIEW**

1. In November 2014, the California Independent System Operator (“CAISO”) and PacifiCorp created an energy imbalance market to enhance real-time coordination. The western EIM is a five-minute market administered by a single market operator, CAISO, which uses an automatic economic dispatch model to find and determine the least-cost energy resources to serve real-time customer demand across a wide geographic area. The western EIM is different from the regional market that is currently being discussed between CAISO and other utilities because the western EIM focuses solely on real-time imbalances and allows EIM entities to retain all balancing responsibilities and transmission provider duties. In addition, it uses generating resources from market participants to meet real-time load efficiently and cost-effectively across the entire western EIM footprint.

2. Idaho Power plans to begin participating in the western EIM in April 2018, and, at that time, the western EIM footprint will include PacifiCorp, CAISO, NV Energy, Inc., Puget Sound Energy, Arizona Public Service Company, and Portland General Electric Company (collectively “Market Participants”). Market Participants voluntarily bid resources into the western EIM and the market operator provides least-cost dispatch instructions and generates a location marginal price to be used for energy imbalances, factoring in load, available generation, and existing transmission constraints. Benefits to joining the western EIM include the economic efficiency of an automated dispatch model for both generation and transmission line congestion, savings due to diversity of loads and variability of resources within the expanded footprint, reduced operational risk due to enhanced system reliability, and ability to better support the integration of renewable resources.

3. Since its inception, the western EIM has resulted in significant cost savings to Market Participants. Idaho Power continually seeks opportunities to attain long-term cost savings for its customers and therefore engaged Energy and Environmental Economics, Inc. (“E3”) to conduct a benefits study to determine whether benefits could be attained through the Company’s participation in the western EIM. The focus of the analysis performed was to provide consistent, conservative estimates of Net Power Supply Expense (“NPSE”) savings to Idaho Power to be used for evaluation of participation in the western EIM. Based upon the results of the E3 benefits study, participation in the western EIM is expected to result in NPSE savings for Idaho Power customers.

4. However, in order to participate in the western EIM and achieve these expected benefits for its customers, Idaho Power must incur EIM-related costs, including upfront and ongoing incremental costs as well as software and metering investments necessary for participation. Idaho Power proposes to defer the Idaho jurisdictional share of these incremental expenses into a regulatory asset until they can be amortized into customer rates after participation in the western EIM commences. Idaho Power also seeks authorization to recover the estimated costs of joining the western EIM in a future rate proceeding. This proposed deferral and subsequent amortization of costs will allow Idaho Power to more closely match EIM costs with the period in which the benefits are achieved.

5. This Application is supported by the Direct Testimony of Timothy E. Tatum, Vice President of Regulatory Affairs, who details the long-term cost savings benefits of participation, the Company’s proposed accounting treatment for incremental costs associated with Idaho Power’s participation in the western EIM, and the

Company's request for authorization of future recovery of these costs. It is also supported by the Direct Testimony of Kathleen Anderson, Transmission and Energy Scheduling Leader in Idaho Power's Load Serving Operations Department, who discusses the nature of the western EIM and the costs and benefits associated with Idaho Power's participation.

## **II. REQUEST FOR DEFERRAL TO ALIGN COSTS AND BENEFITS OF EIM PARTICIPATION**

6. By participating in the western EIM, the Company anticipates achieving NPSE benefits, which will automatically flow to customers through the Power Cost Adjustment mechanism upon the date the Company begins participating, expected to occur in April 2018. However, to achieve such benefits, Idaho Power expects to incur incremental costs to prepare for and participate in the western EIM. Idaho Power seeks to defer its incremental costs related to participation in the western EIM in order to allow the Company to match the benefits that customers receive with the costs incurred by the Company to provide those benefits.

7. As set forth in the benefits study conducted by E3, annual NPSE savings from participation in the western EIM range from \$4.1 to \$5.1 million per year. The E3 benefits study ran several scenarios that simulated Idaho Power's real-time generation costs as an EIM participant and as compared to a business as usual case in order to quantify NPSE savings. The E3 benefits study does not assign an economic value to non-financial benefits associated with increased reliability or potential financial benefits due to anticipated reductions in reserves.

8. In order to participate in the EIM and achieve NPSE savings, Idaho Power will incur incremental costs in a total estimated amount of \$15.77 million, which include start-up costs, software integration costs, metering costs, incremental annual ongoing

labor, and market and hosted software fees. Idaho Power proposes to defer the Idaho jurisdictional share of these start-up and associated incremental labor costs to a regulatory asset until no earlier than April 2018, when such costs can be amortized into customer rates, in order to align the costs more closely with the period the benefits are achieved.

9. To better align costs borne by the Company with the benefits received by customers, Idaho Power proposes an amortization period of 10 years that would begin no earlier than April 2018 to ensure that annual revenue requirements in 2018 and beyond will only reflect positive net benefits. Idaho Power also seeks assurance that the upfront costs required to participate in the western EIM are eligible for recovery when requested. The Company's participation in the western EIM is indefinite, providing benefits to customers for years to come. Ultimately, Idaho Power envisions a scenario where both costs and benefits associated with EIM participation are reflected in base rates after evaluation in a general rate case. Because timing of a future general rate case is unknown, the Company may propose an interim rate recovery method in order to appropriately match the level of cost recovery with the provision of customer benefits.

10. Recognizing the unique nature of the costs and benefits of EIM participation, the Company asks that the Commission issue an order acknowledging the expected customer benefits resulting from its participation in the Western EIM, authorizing the Company to defer its Idaho jurisdictional share of incremental costs related to participation in the western EIM, and authorizing the Company to recover, in a future rate proceeding, the estimated incremental costs of joining the EIM.

### **III. PROPOSED SCHEDULE**

11. Idaho Power seeks to begin participating in the western EIM on April 4, 2018. In order to facilitate other regulatory requirements prior to that date, Idaho Power respectfully requests an order on this Application on or before January 31, 2017.

### **IV. MODIFIED PROCEDURE**

12. Idaho Power believes that a technical hearing is not necessary to consider the issues presented herein and respectfully requests that this Application be processed under Modified Procedure; i.e., by written submissions rather than by hearing. RP 201, *et. seq.* Idaho Power has contemporaneously filed testimony in support of its Application. If, however, the Commission determines that a technical hearing is required, the Company is prepared to present testimony in support of this Application in such a hearing.

### **V. COMMUNICATIONS AND SERVICE OF PLEADINGS**

13. Communications and service of pleadings with reference to this Application should be sent to the following:

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1221 West Idaho Street (83702)  
P.O. Box 70  
Boise, Idaho 83707  
[mlarkin@idahopower.com](mailto:mlarkin@idahopower.com)

### **VI. REQUEST FOR RELIEF**

14. As described in greater detail above, Idaho Power respectfully requests that the Commission issue an order (1) acknowledging the potential for long-term benefits related to Idaho Power's participation in the western EIM, (2) authorizing the establishment of a regulatory deferral account to track necessary incremental costs

associated with EIM participation, and (3) authorizing the Company to recover, in a future rate proceeding, the estimated incremental costs of joining the EIM.

DATED at Boise, Idaho, this 19<sup>th</sup> day of August 2016.

  
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JULIA A. HILTON  
Attorney for Idaho Power Company