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**IN THE MATTER OF THE JOINT APPLICATION ) CASE  NO. IPC-E-97-13**

**OF IDAHO POWER COMPANY AND FMC )**

**CORPORATION FOR APPROVAL OF A SPECIAL ) COMMENTS OF THE**

**CONTRACT FOR SERVICE TO FMC ) COMMISSION STAFF**

**CORPORATION AND A REVISED SCHEDULE )**

**28--FMC TARIFF AND FOR APPROVAL OF )**

**REVISIONS TO THE POWER COST ADJUSTMENT )**

**OF IDAHO POWER COMPANY AS A RESULT OF )**

**THE NEW FMC CONTRACT. )**

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**COMES NOW** the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Cheri C. Copsey, Deputy Attorney General, and in response to the Notice of Application and Notice of Modified Procedure filed January 28, 1998, submits the following comments.

On December 31, 1997, Idaho Power Company and FMC Corporation filed a Joint Application and a revised Schedule 28 (**FMC** tariff), to be effective January 1, 1998, requesting that the Commissionapprove a special contract for service to FMC Corporation. The contract would be for an indefinite period of time and cancellation provisions require two years written notice. Idaho Power and FMC also sought approval to revise Idaho Power Companys Power Cost Adjustment **and to revise schedule 28--FMC tariff.** They alleged these revisions were made necessary by the new **FMC** contract.

After reviewing the Joint Application, on January 26, 1998, the Commission suspended the proposed effective date of the contract and Schedule 28 and ordered the Application be processed under Modified Procedure. Order No. 27336. Comments were due March 30, 1998.

In response to Idaho Power and FMC requests, Staff conducted a workshop to discuss how Idaho Powers Power Cost Adjustment should be revised. At that workshop, Idaho Power and FMC indicated that the originally proposed changes to the Power Cost Adjustment as described in the Application should be modified. On February 20, 1998, FMC and Idaho Power modified their Joint Application in response to the workshop. The proposed special contract and proposed revised tariff were not modified by the February 20, 1998 filing. However, Idaho Power and FMC withdrew the previously proposed changes to the Power Cost Adjustment and proposed other changes in their place. An amended notice of those proposed changes was issued on February 27, 1998. Order No. 27377.

**The Proposed FMC Contract**

The 1973 Contract which this Proposed Contract would supersede was based on a total Idaho Power hydro system. Since 1973, Idaho Power has become a mixed hydro/thermal system. Idaho Power and FMC stated that these contractual revisions are necessary to account for the new resources makeup of Idaho Power and at the same time to meet the unique operational characteristics of the FMC phosphate plant. Idaho Power and FMC state this will not adversely affect existing customers.

The 1973 Contract permitted rate adjustments any time an adjustment was demonstrated to be appropriate. Rates established by the Proposed Contract are contract standard rates as opposed to tariff standard rates. Contract standard rates are not normally adjusted in a general rate case but remain at contract levels over the life of the contract. The Commission previously approved two other existing contracts that have contract standard rates -- one between Washington Water Power and Potlatch Corp. and the other between PacifiCorp and Monsanto (Solutia, Inc.).

In the Proposed Contract, the first block of power (120 MW) would be priced at full cost-of-service and is take-or-pay. The second block of power (up to 130 MW) would be purchased by Idaho Power for FMC at FMCs discretion. If FMC continues to take normal amounts of power, as determined in Idaho Powers last general rate case, market based power costs would have to average approximately 16 mills/kWh in order for Idaho Power to recover the full cost-of-service of the second block. If the costs for providing service to FMC are fully recovered, no other customers rates will be affected by the changes proposed in the new contract

If, after Idaho Power signs a supply contract at FMCs direction, there are changes in FMCs Second Block energy requirements, Idaho Power may be required to purchase additional energy or sell unneeded energy at market rates. Costs associated with such transactions are passed through to FMC and any profits are shared 75% - 25% between FMC and Idaho Power. Under the Proposed Contract, energy transactions would be facilitated by an Idaho Power trader stationed at the FMC facility with the associated costs being fully paid by FMC.

These provisions in the Proposed Contract allow FMC access to market-based rates for up to 130 MW of power. This power can be used by FMC to produce its primary product, elemental phosphorus, or, under favorable market conditions, FMC can have Idaho Power sell it on the market and credit FMC with 75% of the profit. Profits or losses are possible because market prices change over time.

The Proposed Contract could potentially impact how earnings are shared between ratepayers and shareholders. How earnings are shared is established by agreement between Idaho Power Company and the Commission. Since market prices and power quantities that will be supplied under the Proposed Contract are unknown, it is not possible to know whether ratepayers or shareholders will benefit from the Proposed Contract. Therefore, differences in revenue sharing that may result from approving the Proposed Contract are unknown and may fluctuate from year to year.

**Idaho Powers Power Cost Adjustment Changes**

The Proposed Contract affects Idaho Powers Power Cost Adjustment (PCA) mechanism and requires that some changes be made. At Idaho Powers request, a workshop was held in an effort to reach agreement among the parties on the best PCA treatment of the contract. At the workshop Idaho Power proposed several amendments to the PCA. Idaho Power then amended its filing to include the detailed proposal. The following changes to the Power Cost Adjustment mechanism were recommended:

1. Treat the change from primary energy to first block energy (51,840 MWh) as load growth.

2. If the change from primary energy to first block energy (51,840 MWh) is treated as load growth (Item 1 proposal), no change to the Idaho retail allocation will be necessary.

3. Although the second block energy revenue is unknown because the price will float with the market, the 16.84 m/kWh rate used for the firm load growth rate will be used for determining a normalized secondary revenue amount. If FMCs usage is set at normalized levels, the load growth adjustment for the first block at 16.84 mills per kWh would be offset by the second block energy decrease at 16.84 mills per kWh.

Normalized Normalized Normalized

Energy Price Revenue

Secondary Energy 590,678 23.00 13,585,594

Second Block Energy 538,838 16.84 9,074,032

4. Track the actual second block energy revenues, just as actual secondary revenues are tracked for Power Cost Adjustment true-up purposes.

These changes to the PCA are minimal and should not have a substantial effect on PCA results.

Primarily, the changes are required due to differences between energy classified as primary and secondary under the current 1973 Contract versus energy classified as First Block and Second Block under the Proposed Contract. The current Primary Energy block is smaller than the proposed First Block, and the current Secondary Energy block is larger than the Proposed Second energy Block. Total normalized FMC energy is assumed to be the same in both contracts since no supportable reasons for change along with quantifiable differences have been identified.

**STAFF RECOMMENDATION**

Staff recommends approval of the Proposed Contract, the revised Schedule 28 (FMC tariff) and the changes to Idaho Power Companys Power Cost Adjustment. Idaho Power and FMC are willing participants in the contract and are supporting it before the Commission. As discussed above, other customers may be impacted by cost-of-service based rate adjustments, PCA rate adjustments or rate adjustments caused by earnings sharing. Any one or all of the above rate adjustments can be affected by the Proposed Contract and can benefit other customers or cost them money. After carefully considering the Proposed Contract, Staff concludes that the risks inherent in approving this contract are reasonable.

**DATED** at Boise, Idaho, this day of March 1998.

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Cheri C. Copsey

Deputy Attorney General

Technical Staff:

Keith Hessing, Engineer

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