

**PUBLIC UTILITY COMMISSION OF OREGON
STAFF REPORT
PUBLIC MEETING DATE: December 18, 2001**

REGULAR X CONSENT EFFECTIVE DATE January 1, 2001

DATE: December 11, 2001

TO: Phil Nyegaard through Lee Sparling and Ed Busch

FROM: Maury Galbraith and Ed Krantz

SUBJECT: IDAHO POWER COMPANY: (Docket No. UM 1007) Requests amendment of Order No. 01-307 to include in the power cost deferral mechanism certain costs associated with the BPA credit and programs to reduce power supply expenses.

STAFF RECOMMENDATION:

We recommend that the Commission approve Idaho Power's application to amend Commission Order No. 01-307 to include in the power cost deferral mechanism certain costs associated with programs to reduce power supply expenses, with conditions. All costs are subject to a prudence review and therefore subject to refund.

DISCUSSION:

On October 30, 2001, Idaho Power Company (Idaho Power or company) filed an application, that was docketed UM 1007. In this filing, the company requests the Commission to amend its Order No. 01-307 to allow the company to include Oregon's allocable share of the expenses incurred from January 1, 2001 through December 31, 2001, associated with certain programs Idaho Power has initiated in the state of Idaho to reduce system net power supply expenses, in the previously approved deferred account. This application was filed pursuant to ORS 756.568, ORS 757.259 and OAR 860-027-0300.

The original application filed by Idaho Power, dated December 19, 2000 and docketed as UM 1007, requesting deferred accounting for its excess net power costs, included only the Oregon Demand Buy-Back programs and inadvertently excluded Idaho programs that were implemented to reduce net variable power costs on a total system basis. Staff's preliminary review of these programs supports the company's request to include the programs costs in the deferred account. A thorough review of each of these programs as well as all net power costs will be made during the prudence audit to be conducted in early

2002. Any adjustments resulting from that audit can be made at a later date without any impact on current rates (the amortization is set at six percent of revenues and, based on the October 31, 2001 balance, will likely continue for more than eighteen years).

A brief summary of the Idaho programs is as follows:

- (a) Temporary Mobile Generation
The leasing and operation of temporary mobile electric generation facilities for generation of additional power supply.
- (b) Irrigation Voluntary Load Reduction
An energy conservation program for large irrigation customers during the 2001 growing season.
- (c) Large Power Voluntary Load Reduction
A temporary energy buy-back program applicable to industrial and large commercial customers of Idaho Power able to reduce their load by at least 1 MW.
- (d) Astaris Voluntary Load Reduction
Astaris LLC (a large power customer) and Idaho Power Company entered into an addendum to the special contract that allows Astaris to receive credit at pre-defined below-market rates for opting to not consume 50 MWs of energy.
- (e) Mountain Home Generation
The construction and operation of two natural gas-fired combustion turbines rated at approximately 45 MWs each.
- (f) Other
Credit from IDACORP Energy (Direct Assignment to Oregon)

Total system net variable power costs as of October 31, 2001, totaled \$433 million. That balance includes about \$163 million for the additional programs in this current application. If this filing is approved these costs will flow through the UM 1007 deferral mechanism and be allocated to Oregon¹.

The company also filed an application on October 17, 2001, also docketed under UM 1007, requesting the Commission to include in Idaho Power's power cost deferral mechanism a Bonneville Power Administration (BPA) credit. After several discussions between the company and Staff, it is mutually agreed that it is not necessary or reasonable to pursue including the BPA credit in the deferred account because of the short time frame (the single month of October 2001) and the insignificant dollar amount involved. The company has withdrawn the application for the BPA credit, so no action is required.

¹ The additional \$163 million in total system cost equates to approximately \$6 million on an Oregon basis after deferral mechanism sharing ($\$163 \text{ million} * 80\% \text{ sharing} * 4.78\%$) = Oregon allocation.

History

On December 19, 2000, Idaho Power Company filed an application docketed as UM 1007 requesting an accounting order authorizing the company to defer excess net power costs incurred as a result of extraordinarily high wholesale power prices. No party opposed the application.

Staff reviewed Idaho Power's UM 1007 filing as well as additional information provided in response to Staff data requests. The company's power supply costs were far greater than forecasted due to the combination of high purchased power costs and below-average hydroelectric generating conditions. On March 7, 2001, Staff proposed a mechanism for calculating Idaho Power's deferred excess power costs. The parties discussed Staff's proposal at a settlement conference held on March 21, 2001. At that meeting, Staff and the company agreed on a mechanism to calculate the company's deferred excess power costs. The agreed-upon approach is virtually the same as the Commission-approved approach for both Portland General Electric Company and PacifiCorp in their dockets concerning deferral of changes in net variable power costs. See OPUC Order Numbers 01-231 (PGE) and 01-420 (PacifiCorp).

Staff recommended and the Commission approved deferral of a portion of Idaho Power's excess net power costs in Docket UM 1007 using the agreed-upon mechanism (Order No. 01-307).

Idaho Power filed an application on April 18, 2001, docketed UE 123, to implement tariff schedules increasing its Oregon revenues by \$774,950 (3 Percent). The Commission issued Order No. 01-408 effective May 2, 2001, approving the application and requiring that a hearing be scheduled and ordering that the rates are subject to refund.

Subsequently, at the Commission's June 15, 2001 public meeting, the Commission granted the company's request to delay implementation of the increase to June 18, 2001. At the November 20, 2001 public meeting, the Commission authorized the company to increase the amortization rate to six percent.

Alternatives

1. Staff recommends the Commission approve Idaho Power's request to modify Order No. 01-307 and include the cost of the Idaho programs in the power cost deferral. We believe that including these costs in the deferral calculation for 2001 is fair and reasonable, as well as consistent with the intent of the original deferral authorization.
2. The Commission could determine that the original order was specific to certain power costs and the additional programs were outside the scope of that

authorization, and therefore only the program costs that were incurred on and after the October 17, 2001 application date are eligible for deferral. The Commission could decide that these programs were not part of the original application, and accordingly under ORS 757.259(3) cannot be deferred prior to the date of the current application, which for these programs was October 17, 2001.

PROPOSED COMMISSION MOTION:

Idaho Power's application to amend Commission Order No. 01-307 to include in the power cost deferral mechanism certain costs associated with programs to reduce power supply expenses be approved. Further, all program costs are subject to the results of a prudence review and therefore subject to refund

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