

# ORIGINAL

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IDAHO PUBLIC  
UTILITIES COMMISSION

## BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE	)	CASE NO. IPC-E-07-10
APPLICATION OF IDAHO POWER	)	
COMPANY FOR AUTHORITY TO	)	COMMENTS OF THE
IMPLEMENT POWER COST	)	INDUSTRIAL CUSTOMERS
ADJUSTMENT (PCA) RATES FOR	)	OF IDAHO POWER
ELECTRIC SERVICE FROM JUNE 1,	)	
2007 THROUGH MAY 31, 2008	)	
_____	)	

### Introduction

In accordance with the Commission's Order No. 30302 in the above-captioned case, the Industrial Customers of Idaho Power (ICIP) respectfully submit these comments on Idaho Power Company's application to the Commission for authority to implement Power Cost Adjustment (PCA) rates for June 1, 2007 through May 31, 2008. The ICIP is an unincorporated association of industrial power consumers who purchase power under Idaho Power's Schedule 19. The ICIP is especially concerned with making sure that Idaho Power's rates are set as low as is reasonable, while ensuring a level of rate stability that allows its members to conduct their business in an efficient and continuous manner.

As set forth more fully below, the ICIP requests that the Commission initiate a proceeding to determine whether changes to the PCA methodology should be made, and further requests that the Commission approve Idaho Power's application in this

proceeding subject to refund, pending the Commission's determination of the changes that should be made to the PCA methodology.

### **Idaho Power's 2007 PCA Application**

Idaho Power's 2007 PCA application requests rates that will be a significant increase from current rates. For Idaho Power's schedule 19 customers, the rates under the requested PCA will be 22.5 percent higher than current rates.<sup>1</sup> While it is probably fair to say that the increase is simply the outcome of the PCA as designed, and that this year's rate increase is due in part to a baseline that resulted from a PCA rate decrease in 2006, it is also fair to say that the result is extremely difficult for the ICIP's members and disruptive to their operations. Some of these difficulties are described in the attached affidavits of Ray Arp of Amalgamated Sugar Company and Don Sturtevant of J.R. Simplot Company.<sup>2</sup>

Because the ICIP has not found any errors or irregularities in Idaho Power's proposed 2007 PCA rates, the ICIP does not object to the Commission's approval of the Company's application. However, in light of the difficult circumstances caused by the PCA's operation in the coming year, the ICIP asks that the Commission make any approval of Idaho Power's application subject to refund, based on the outcome of a future determination of whether the PCA should be modified, as outlined below.

### **Suggested Modifications to the PCA**

The ICIP recognizes that the PCA has value for both the Company and its customers. In times when hydro conditions are better than expected, the PCA allows customers to keep their money in their own pockets rather than paying Idaho Power for rates that are higher than necessary to sustain its business operations. Conversely, when

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<sup>1</sup> Press Release, Customer Notice, p. 2, Case No. IPC-E-07-10 (April 13, 2007).

<sup>2</sup> See Attachments 1 and 2.

hydro conditions are worse than expected, the PCA allows Idaho Power to receive increased revenues from customers to cover the costs it experiences in purchasing power in the market and in running its higher cost resources to make up generation deficits. Based on this recognition, the ICIP is not recommending any changes to the PCA that would undermine the PCA's ability to match customers' total payments and the Company's total revenues with actual power supply expenses incurred. Rather, the ICIP's suggested changes are intended to smooth out, to some extent, the volatility in rates under the PCA, while still providing a balance that will leave the PCA's value intact.

1. **The PCA should contain a balancing account mechanism that allows certain positive and negative deviations from normalized power supply expenses to cancel each other out.**

Over the past several years, the PCA rate has demonstrated a cycle of rate increases and decreases. This is expected, of course, and part of the value the PCA has of matching Idaho Power revenues with need, based on power supply costs. However, in some circumstances, the ICIP believes that one year's excess and the next year's deficit should be allowed to cancel each other out in the interest of rate stability. Given a trend of increasing volatility in annual Snake River flows,<sup>3</sup> such a mechanism would seem prudent. While the ICIP is not able to offer at this time the precise limits under which this should occur, the last two years provide an example of the situation that could be mitigated.

In 2006, Idaho Power's industrial customers experienced about a 27 percent rate decrease under the PCA (although that decrease was partially offset by a general rate increase). Now, in 2007, Idaho Power's industrial customers will experience a 22.5

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<sup>3</sup> See Attachment 3, Variability in Snake River flows, prepared by Dr. Don Reading.

percent rate increase under the PCA. If these variations from the power supply costs assumed in rates could be, to some extent, applied against each other, the industrial class as well as Idaho Power could have been made whole without the pronounced rate volatility we are now experiencing. The ICIP believes this could be accomplished through a balancing account mechanism that would, up to a determined level, retain a year-to-year negative or positive balance that could be offset by subsequent years. The ICIP believes that the precise limits in the balancing account should be determined through the additional proceeding requested in these comments. Any such account would accrue interest, in favor of either the Company or its customers, at a rate determined by the Commission.

**2. The balancing account mechanism should trigger a rate change only when its balance exceeds a determined threshold.**

If the PCA contained a balancing account mechanism, such as the one described above, slight variations between actual and normalized power supply costs might not trigger any rate change in a given year. Within reasonable bounds, the ICIP believes this would be a good result. For large variations in power supply costs, however, the PCA would have to allow those costs to be passed through to rates in order to maintain the value of the PCA in keeping the customers and Idaho Power whole. The ICIP believes that this should happen only when the level of the balancing account exceeds a determined threshold—one that represents the point at which the Company and its customers would otherwise experience a significant hardship without an adjustment to rates. Any balance that remains in the balancing account would accrue interest, for both positive and negative balances. Again, the ICIP would expect that threshold to be determined by the Commission in a future proceeding.

**3. The balancing account mechanism should allow for the recovery of large balances over a number of years.**

Once the threshold established in a balancing account mechanism is reached, the entire balance of the account would be passed on to rates through the PCA. Due to the recognized variability of Idaho Power's power supply costs, this balance could be extremely large under some circumstances once triggered. When the balancing account is so large that it would cause rate shock, the ICIP believes that the balance should be collected over a number of years. Although the collection period could be determined in a future proceeding, the ICIP would suggest that a three-year period seems reasonable.

The ICIP envisions this deferred collection of the balancing account total as working both ways—Idaho Power would collect increased rates (over the level determined to be rate shock) over a three year period, and customers would collect rate decreases (over a determined level) over a period of three years. One benefit of this approach would be that if in the ensuing collection period the PCA accrues a balance that would offset the amounts that would otherwise be collected under the “trigger” event, the amount collected through rates could be adjusted to account for those subsequent years' actual power costs.

The ICIP recognizes that the Company and Commission may view the deferred collection of revenues or distribution of credits under the PCA as a retreat from the PCA's purpose, or as an impediment to the Company's ability to match revenues with costs. However, the ICIP believes that the thresholds in a balancing account could be determined such that they will ensure the Company receives the revenues necessary to maintain the liquidity required to sustain yearly operations. The ICIP's goal is to allow the Company to receive the revenues it needs, and the customers to receive the credits they are entitled to in a manner that results in a smoother payout. The current operation

of the PCA in making Idaho Power and the customers “completely whole” within a single year simply results in a detrimental level of rate volatility under some circumstances. In a future proceeding, the Company, its customers, and the Commission should take a reasoned look to determine if the PCA’s value could be maintained while allowing for a heightened degree of rate stability.

**4. The PCA’s soft cap should have a baseline of current rates, rather than normalized rates.**

To the extent the “cap” in the PCA is intended to provide the stability that the ICIP is requesting in these comments, the ICIP believes the cap should be modified. In its order approving the PCA, the Idaho Commission required,

[I]f forecasted increases above normalized power supply costs in any given year are predicted to exceed 7% of the Company’s *normalized base revenues* for the Idaho jurisdiction, then Idaho Power is instructed to make a filing with the Commission for the purpose of determining whether a means to defer a percentage of that year’s power supply cost recovery should be investigated.<sup>4</sup>

Under the PCA, therefore, Idaho Power must at least seek the Commission’s determination of whether rate collection should be spread out over a number of years when the PCA results in a rate increase of above 7 percent. However, the baseline for determining whether the 7 percent threshold is reached is the Company’s *normalized base revenues*, rather than the previous year’s rates. This means that, as is the case this year, the PCA can result in a rate increase well above the 7 percent from the prior year without any investigation into whether any amounts collected should be deferred. The ICIP does not believe that this current provision prevents against rate shock, since rates may vary dramatically from year to year without triggering the Commission’s review. The ICIP believes that the proper baseline for triggering the cap built into the PCA

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<sup>4</sup> Order No. 24806, p. 14 (emphasis added).

should be the prior year's rates. At the retail level, the change in rates from year to year is a more appropriate indicator of rate shock than is the increase above normalized power supply costs.

To be clear, the ICIP would support a Commission determination that the cap, if applied as the ICIP suggests, should apply both ways. In other words, the ICIP would envision the cap as requiring an investigation into whether a credit to customers should also be spread over a number of years if the credit results in a rate decrease of more than 7 percent from the prior year's rates. As is the case now, the Commission could retain discretion to determine whether that would be prudent, based on overall rate levels, economic conditions, and other similar considerations. In some years, however, the ICIP believes that Idaho Power and its customers would be beneficially protected from extreme rate volatility by retaining some amount of customer credit in a balancing account, with interest, to offset future rate increases that the Company and its customers would otherwise experience if the entire credit was paid out. Again, the details of the mechanism could be determined in the future proceeding that the ICIP requests in these comments.

### **Conclusion**

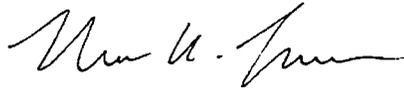
For all the reasons stated above, the ICIP respectfully requests that the Commission grant Idaho Power's application for authority to implement PCA rates, subject to refund, based on the Commission's future determination of whether the PCA methodology should be modified, as outlined herein.

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Respectfully submitted this 14<sup>th</sup> day of May, 2007,

A handwritten signature in black ink, appearing to read "Mark R. Thompson". The signature is fluid and cursive, with a long horizontal stroke at the end.

Mark R. Thompson  
Of attorneys for Industrial  
Customers of Idaho Power

**ATTACHMENT 1**  
**(AFFIDAVIT OF RAY ARP)**

**BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION**

IN THE MATTER OF THE	)	CASE NO. IPC-E-07-10
APPLICATION OF IDAHO POWER	)	
COMPANY FOR AUTHORITY TO	)	<b>AFFIDAVIT OF RAYMOND</b>
	)	<b>ARP</b>
IMPLEMENT POWER COST	)	ON BEHALF OF THE
ADJUSTMENT (PCA) RATES FOR	)	INDUSTRIAL CUSTOMERS OF
ELECTRIC SERVICE FROM JUNE 1,	)	IDAHO POWER
2007 THROUGH MAY 31, 2008	)	
<hr/>		

STATE OF IDAHO	)	
	)	ss
COUNTY OF CANYON	)	

I, Raymond Arp, being first duly sworn, state as follows:

I am employed by Amalgamated Sugar Company as the Corporate Electrical Engineer, and my business address is 3184 Elder Street, Boise, Idaho 83705. I offer this affidavit, which is true and correct to the best of my knowledge, in support of the Comments of the Industrial Customers of Idaho Power in Case No. IPC-E-07-10, regarding Idaho Power's application for authority to implement Power Cost Adjustment (PCA) rates for electrical service from June 1, 2007 through May 31, 2008.

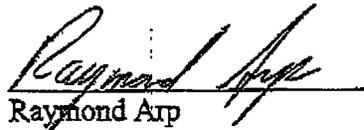
Amalgamated Sugar Company is a Schedule 19 customer of Idaho Power, and spends a significant portion of its operating expenses on purchasing electrical service from Idaho Power. I understand that this year Idaho Power filed an application for a PCA rate that will increase its Idaho Customers' electricity costs by more than six-tenths of a cent per kilowatt hour (0.6108 cents), and that this equates to a 22.5 percent rate increase for its Schedule 19 customers as compared to current rates.

Based on Amalgamated Sugar Company's power usage from May of 2006 to May of 2007, I calculated the expected impact of the requested PCA rate increase to the Company's operating account at its three operating facilities in Idaho. These calculations show an approximate 20 percent overall average cost increase from May 2007 to May 2008 at the three operating Idaho facilities.

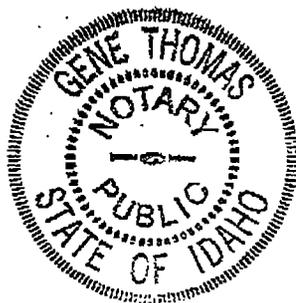
Under the PCA as currently structured, Amalgamated Sugar Company learned of the magnitude of this rate increase in mid-April, after the Company had already prepared operating cost estimates and budgets. Accounting for such an impact in the middle of a budget cycle is extremely problematic. Additionally, in the sugar commodity market, Amalgamated Sugar Company does not have the ability to simply pass along the costs of such rate increases.

While the Industrial Customers of Idaho Power support the use of a PCA, a modification of the PCA to increase rate stability to some degree would be desirable.

Dated this 9<sup>th</sup> day of May, 2007.

  
Raymond Arp

SUBSCRIBED AND SWORN before me this 9<sup>th</sup> day of May, 2007.



  
NOTARY PUBLIC for IDAHO  
My Commission Expires: 10/13/2010

**ATTACHMENT 2**  
**(AFFIDAVIT OF DON STURTEVANT)**

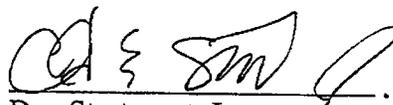


Company now expects to incur a very substantial amount of costs that were unanticipated at the time the Company set its budgets for this year.

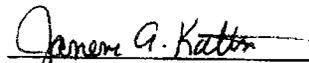
Under the PCA as currently structured, J.R. Simplot Company did not learn of the magnitude of this rate increase until mid-April. Accounting for such an impact in the middle of a budget cycle is extremely problematic, and in a competitive market, simply passing those costs immediately on to the consumer can be detrimental and impractical.

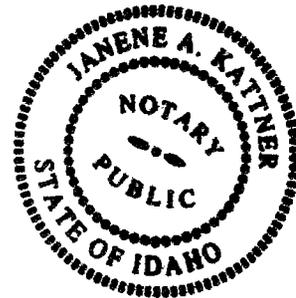
While the Industrial Customers of Idaho Power support the use of a PCA, a modification of the PCA to increase rate stability to some degree would be desirable.

Dated this 9<sup>th</sup> day of May, 2007.

  
Don Sturtevant, Jr.

SUBSCRIBED AND SWORN before me this 9th day of May, 2007.

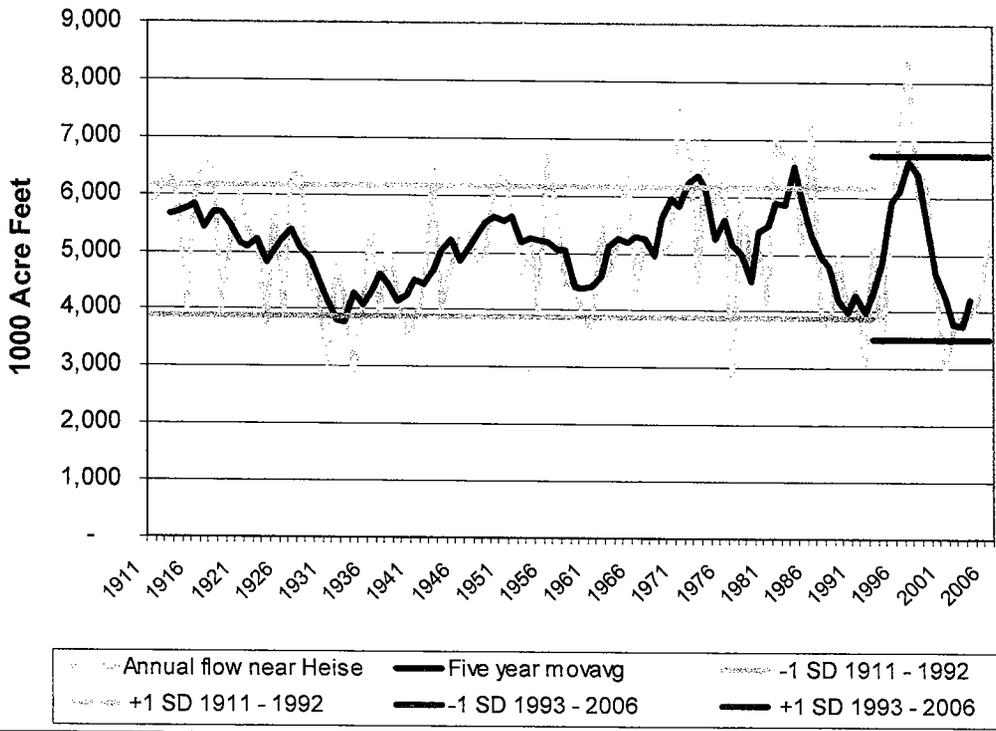
  
NOTARY PUBLIC for IDAHO  
My Commission Expires: 5/31/08



**ATTACHMENT 3**

**(VARIABILITY OF SNAKE RIVER FLOWS,  
Prepared by Dr. Don Reading, Ben Johnson Associates)**

Snake River Natural Flow near Heise 1911-2006



**CERTIFICATE OF SERVICE**

I HEREBY CERTIFY that on this 14th day of May, 2007, I caused a true and correct copy of the foregoing **COMMENTS OF THE INDUSTRIAL CUSTOMERS OF IDAHO POWER** to be served by the method indicated below, and addressed to the following:

Jean Jewell  
Idaho Public Utilities Commission  
472 West Washington Street (83702)  
Post Office Box 83720  
Boise, Idaho 83720-0074

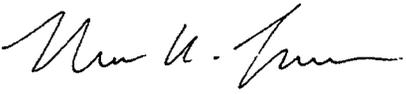
U.S. Mail, Postage Prepaid  
 Hand Delivered  
 Overnight Mail  
 Facsimile  
 Electronic Mail

Barton L. Kline  
Lisa Nordstrom  
Idaho Power Company  
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 Hand Delivered  
 Overnight Mail  
 Facsimile  
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Gregory W. Said  
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U.S. Mail, Postage Prepaid  
 Hand Delivered  
 Overnight Mail  
 Facsimile  
 Electronic Mail

Signed:   
Mark R. Thompson