BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UE 167

In the Matter of IDAHO POWER COMPANY Application for General Rate Increase in the Company's Oregon Annual Revenues of $4,418,908, or 17.52 Percent Overall	**IDAHO POWER COMPANY'S REPLY BRIEF**

INTRODUCTION

Idaho Power's Reply Brief responds to three issues raised by the Opening Briefs of Staff, CUB, and OICIP: (1) the appropriate power supply expenses to be included in rates; (2) whether seasonal rates should be adopted for residential customers; and (3) whether expenses associated with the Danskin plant should be included in rate base.

Power Supply Expenses. Staff's primary problem with Idaho Power's recommended power supply expenses rests upon a very specific critique of the way in which the Company's model handles gas prices. In addition, Staff argues that the modeled results are inconsistent with portions of Mr. Said's testimony. Based upon these criticisms Staff argues that the Commission should: (1) abandon its approved methodology for setting the Company's rates; (2) adopt a methodology that is similar to one that was rejected over 20 years ago; and (3) accept Staff's recommendation for future power supply expenses despite the fact that it is completely out of line with historical experience and any reasonable expectations for the future. Staff's position is unrealistic, unreasonable, and should be rejected.

All models are imperfect, and the computation of net power supply expenses is a tremendously complex enterprise. For these reasons, it is essential that any modeler perform a reality check on the end result. A simple "reasonableness review" of the numbers produced by

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the competing methodologies demonstrates that Idaho Power's power supply expense estimates are sound and any flaws in its methodology are insignificant. And that same reasonableness review reveals that Staff's power supply estimates are anomalous, suggesting that the flaws in its methodology are significant. By focusing on inputs and ignoring the reasonableness of results, Staff has lost the forest for the trees. The Commission should reject Staff's approach and approve Idaho Power's power supply expense recommendation.

Seasonal Rates. CUB argues against the use of seasonal rates for residential customers based upon its preference for simplicity. CUB also hypothesizes that the Company's proposed higher summer bills may create a disincentive for residential customers to conserve during winter months. However, CUB offers no support for its positions, nor does it even respond to the Company's basic argument for seasonal rates—that rates should accurately reflect costs. Given that Idaho Power's proposal for seasonal rates will better align costs and prices and send more accurate price signals to customers, the Company's proposal should be adopted.

Danskin. OICIP takes the position that expenses associated with the Danskin Plant should not be included in rate base. OICIP's basic position is that Danskin is just too expensive. However, OICIP's argument ignores the fact that the prudence of the Company's investment is to be judged at the time the investment was made. In this case, the decision to build Danskin was made in the context of the Western energy crisis. When the relevant facts are taken into account, there can be no doubt that the decision to build Danskin was reasonable. Accordingly, Danskin should be allowed into rate base.

ARGUMENT

A. Idaho Power's Model Has Produced Sound Estimates of Normalized Power Supply Expenses

Staff has leveled two basic criticisms against Idaho Power's estimates for normalized power supply expenses ("NPSE"). First, Staff suggests that the Company's modeling is inconsistent with Company witness Greg Said's observations and expectations of electricity

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market prices. Second, Staff argues that the model's handling of gas prices is flawed and requires the model's rejection. Neither criticism is well founded.

1. Idaho Power's Modeling is Consistent with its Witnesses' Observations Regarding Pricing Trends.

Staff has devoted several pages of its Opening Brief to arguing that Idaho Power's modeling is inconsistent with the testimony of Idaho Power's witness, Greg Said. Staff offers these purported inconsistencies as evidence that the Company's projected market-clearing prices are too low.[1] However, a review of Mr. Said's testimony and the model results show that they are entirely consistent.

First, Staff points to Mr. Said's testimony that: (a) market prices are generally higher than they were 10 years ago; and (b) during the past two drought years the Company has routinely seen prices in the $40 to $50 per MWh range. Staff then proceeds to make much of the fact that actual prices during these drought conditions were in the $40 to $50 range and markedly higher than the prices produced by the Company's modeling for low water years. However, Mr. Said has always agreed that the model seems to have significantly understated costs at the low water extreme.[2] However, this does not suggest that the Company's power expenses have been overstated. Quite the opposite. In cases of extreme low water, the Company will be short, rather than long. This fact suggests that the power supply expenses produced by the Company's model are understated rather than overstated.

Staff next points to Mr. Said's testimony that in high water years Idaho Power would not expect to see prices as low as the $7 to $17 range that prevailed ten years ago. Staff claims that this statement undercuts the Company's modeling which produces surplus sales during high water conditions that are "often below $20."[3] However, Mr. Said's testimony is entirely consistent with the Company's modeling. Mr. Said stated that ten years ago the monthly floor

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[1] Staff Opening Brief at 5-7.
[2] Idaho Power/200, Said/9.
[3] Staff Opening Brief at 6-7.

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for electricity market prices during high water conditions was modeled at $7 per MWh. That monthly average floor is now modeled at $17 per MWh, which is over twice the previous level and is in fact the Company's expectation of electricity market prices during high water conditions.[4] Staff's attempt to find an inconsistency here is mystifying.

Finally, Staff maintains that Idaho Power' modeling understates market electricity prices even under "average hydro conditions." Staff claims that the Company models the average daily Mid-Columbia on-peak price of $23.91, and that its highest on-peak price under average conditions is $30.83 under average water conditions. Staff goes on to explain why these modeled prices are out of step with the Company's actual experience for the average water condition—which Staff assumes is represented by Idaho Power's January 1, 2004 through June 30, 2004 forward price curves.[5] Staff's argument is without merit.

First, Idaho Power did not model an "average" water condition but rather complied with the Commission-approved method by evaluating a full range of water conditions. What Staff has done is select the model's 1967 water condition as "representative" of the average water condition. Evaluating a single average condition is not the same as evaluating the results of a range of conditions. *Second*, when compared with historical data, it should be clear that Company-modeled prices are not understated. As can be seen from the most recent 12 years of history, 75 percent of the *actual* average annual transaction rates for purchases and sales have been below the *modeled* average annual transaction rate for the 1967 water condition. Similarly, 58 percent of the *actual* annual average transaction rates for purchases and sales have been below the *modeled* average annual transaction rate associated with the full 76 modeled conditions.[6] Recent history would suggest that the model has overstated rather than understated average annual transaction rates.

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[4] Idaho Power/200, Said/9.
[5] Staff Opening Brief at 7.
[6] Idaho Power/200, Said/11-12.

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The annual average transaction rate for purchases and sales for the 1967 water condition as determined within the Company's power supply modeling was $23.85 per MWh. The annual average transaction rate for purchases and sales over the full range of 76 water conditions as determined with in the Company's power supply modeling was $22.90 per MWh. A comparison with the actual transaction rates suggests that these numbers are sound. The annual average transaction rate for purchases and sales of $23.85 per MWh associated with the 1967 water condition has been exceeded only 5 times in the last 12 years (1998, 2000, 2001, 2003, and 2004). During two of these years, 2000 and 2001, the market prices were artificially inflated in California, which adversely impacted Idaho Power and other Northwest utilities and customers. Two other years, 2003 and 2004, were among the lowest 20 percent of water conditions. In 1998, water conditions were within the highest 20 percent and the annual average transaction rate for purchases and sales was $23.65, which was lower than the 1967 water condition. The annual average transaction rate for purchases and sales in the remaining seven years was below $23.85 per MWh.[7]

Idaho Power's recommendation for net power supply expenses is based upon market prices that are consistent with its witnesses' testimony and are supported by the evidence. Staff's claims to the contrary should be rejected.

2. AURORA's Use of Gas Prices Does Not Undercut the Validity of Estimates.

Staff's rejection of the Company's recommended power supply expenses rests primarily on its critique of the model's handling of natural gas prices. Specifically, Staff argues that: (1) the natural gas price inputs to the model are too low; and (2) the model seems to posit a relationship between gas prices and hydro that does not exist.[8] Based upon these two criticisms,

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[7] Idaho Power/200, Said/12.
[8] Staff Opening Brief at 8-9

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Staff has recommended that the Commission abandon its approved methodology and instead adopt Staff's forward price curve method. These criticisms do not justify Staff's approach.

First, it should be noted that gas prices and hydro conditions are inputs to AURORA modeling that are both used in the determination of transaction prices for purchases and sales. Idaho Power has provided a full explanation of the method it used to determine and incorporate natural gas prices into its model. The normalized natural gas prices input into AURORA were based upon variability of gas prices as reflected in Northwest Planning Council documents. Idaho Power started with the spot market price at Henry Hub adjusted to incorporate the basis differential between Henry Hub and Idaho Power's area in AURORA. Demand for gas varies with regional energy surpluses and deficiencies which are largely driven by water conditions. Therefore a different gas price was used for each of the 76 streamflow conditions resulting in a range of transaction prices for purchases and sales that were determined in the AURORA model and used for the computation of net power supply costs for the test year.[9]

Staff argues that it appears from this method that Idaho Power is suggesting a "deterministic" relationship between gas prices and hydro conditions.[10] That is not the case. Rather, Idaho Power's method reflects an attempt to incorporate natural gas prices in a fashion that recognizes that it is hydro, and not natural gas, that ultimately drives electricity prices in the region.

Staff also argues that Idaho Power's methodology assumes gas prices that are too low. Conversely, Idaho Power believes that Staff's proposed electricity prices are too high. However, Idaho Power witness Greg Said specifically stated that the resulting electricity prices produced by AURORA were as he expected under the modeled circumstances.[11]

Idaho Power readily admits that its method—like any modeling methodology—does not provide a perfect solution to modeling the complex relationship between gas prices and

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[9] Staff/400, Idaho Power's Response to Staff Data Request No. 25.
[10] Staff Opening Brief at 9.
[11] Idaho Power/200, Said/8-10.

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electricity prices in the Northwest's hydro-driven market. However, given the reasonableness of the results, it believes that it has presented the Commission with the best possible approach.

B. Staff's Recommendation for Power Supply Expenses is Flawed and Should be Rejected

As discussed in Idaho Power's Opening Brief, Staff recommends that the Commission compute Idaho Power's normalized power supply expenses by re-pricing Idaho Power's projected monthly energy sales and purchases, normalized for hydro conditions, using flat monthly electricity prices calculated from Idaho Power's forward price curves from April 30, 2004.[12] Staff's position should be rejected.

1. Staff's Recommendation Relies on a Flawed Methodology.

A forward price curve is a spot market representation of the prices various power marketers indicate for future power purchases or sales prices at the date the forward price estimate is created. In other words, based upon what is known today, energy for next December can be bought or sold today at a price reflective of what markets today believe prices will be next December.[13] Thus, the April 30, 2004 forward price curve relied upon by Staff is a representation of what the marketers assessed on that date would be the market prices for some period into the future.

Staff claims that it is appropriate to use the April 30 forward price curve because it "reflected the power markets' expectation of average monthly spot market prices during calendar year 2005, under normal hydro conditions."[14] In identifying the price curve as reflective of normal hydro conditions, Staff has committed a clear error. The April 30, 2004 forward price curve reflects the below-average water conditions that have prevailed for several years and therefore reflects prices above those that would be expected to prevail under normalized or

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[12] Idaho Power Opening Brief at 8-12.
[13] Idaho Power/600, Said/4-5.
[14] Staff/200, Galbraith/15.

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average water conditions.[15] In fact, the region has not experienced an average water condition since 1999.[16] Given the prolonged period of Northwest drought just prior to April 30, 2004, and April 2004 forecasts of continued drought conditions, Staff's assumption that the electricity market would ignore current and projected conditions and be willing in April to buy and sell power for the following year at rates reflective of normal hydro conditions is unrealistic. On the contrary, given the then-current drought-driven market prices and no assurance of a return to average water conditions, common sense would suggest that the quoted future market prices reflected an unwillingness to enter into future purchase or sales transactions at less than current prices.[17]

Staff seems to concede that it is reasonable to expect high market prices under drought conditions and low prices under high water conditions.[18] Notwithstanding that fact, Staff does not individually price independent water conditions. Rather, Staff simply reprices all of the purchase and sales transactions that result from averaging the short and the long positions of all 76 water conditions at the April 30, 2004 forward market prices. As a result, lower market prices that prevail under better than drought conditions are not considered at all. Thus, Staff takes the high, drought-related prices that Idaho Power is currently paying to acquire electricity during periods of deficiency, and assumes those same high electricity prices will exist when the Company has surplus energy to sell. Use of this method has resulted in Staff significantly understating normalized power supply expenses.[19]

Staff argues that the April 30, 2004 price curve is not indicative of drought conditions because specific information regarding the 2005 hydro condition was unavailable on April 30 2004, and therefore the market's expectation was for a resumption of normal hydro conditions.[20]

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[15] Idaho Power/300, Peseau/12.
[16] *Id.*
[17] Idaho Power/200, Said/4.
[18] Staff/200, Galbraith/5-8.
[19] Idaho Power/200, Said/15.
[20] Staff/200, Galbraith/15.

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If this were true, the forward prices curves subsequent to April 30, 2004 should have exhibited a pronounced increase to higher prices if indeed the April 30 forward price curves really reflected an expectation of average water.[21] In fact, the subsequent months' forward price curves were consistent with the April 30 prices, even as the summer and fall continued with dry conditions. These prices continued until January 2005, when reports of the snowpack reflected even poorer anticipated water.[22]

In general, reliance on a single forward price curve as an estimate of future "normal" expenses is a perilous undertaking. Such forward price curves change daily as circumstances change. While a forward price curve may "predict" prices fairly accurately for a time period in the very near future, its reliability will erode the further into the future it purports to predict. During the Western energy crisis at the beginning of the decade, the entire industry learned the hard way how dangerous it is to take a "price view" when electricity prices are volatile. Staff's price view assumes that Idaho Power benefits from high prices to an extent never achieved in the past.

A second significant flaw in Staff's normalization methodology is its use of flat monthly market prices. Flat prices refer to Staff's averaging of the on-peak and off-peak forward price curves. Due to the daily load shapes that Idaho Power faces in all seasons of the year, it does not receive the same price for its energy sales as it has to pay for market purchases. The Company's daily peak loads occur during the day when it has to purchase power at on-peak prices. Similarly, the Company has surplus energy available for sales at off-peak times when loads are lower. Thus, the Company pays the higher on-peak prices when it purchases power, and receives the lower off-peak prices when it sells. Idaho Power demonstrated that its off-peak sales quantities tend to be nearly fifteen times the quantity of energy it purchases.[23] Given this, Staff

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[21] Idaho Power/300, Peseau/12-13.
[22] *Id.* In addition, it is unlikely that the power marketers ignored the phenomenon of autocorrelation in determining the April 30, 2004 forward price curve. *See* Idaho Power's Opening Brief at 11.
[23] Idaho Power/300, Peseau/19.

should have repriced its assumed quantities of Idaho Power's surplus energy sales at or near the off-peak prices, not at a flat twenty-four hour price.

Staff urges the Commission to reject this argument because Idaho Power objected to producing the on-peak/off-peak sales data due to the extremely burdensome nature of Staff's request. However, the Company's objection was not a frivolous one. In its response to Staff's data request, Idaho Power took pains to explain the effort that would be required to produce the information requested:

> The requested information was not produced when the 76 simulations were run resulting in the net power supply expense shown on Exhibit 13 and is, therefore, unavailable. The Company does not presently have the capability to obtain the data. Retrieval of the information would require an extensive and extremely time consuming special study that could involve (1) writing special model code to produce surplus sales energy and revenues by hour and integrating the code into the macro that was written by EPIS in 2003 for purposes of quantifying net power supply costs under multiple water conditions and gas prices; (2) rerunning the model 76 times in order to produce the average quantities and revenues shown on the average page of Exhibit 13; and (3) aggregating the output into HLH and LLH periods. It is unclear that this last step can be accomplished since the original 76 model runs that produced the net power supply costs shown on Exhibit 13 reflect a sample of hours.

The Company's inability to produce the historical data within the short time frame imposed by the data request does not undercut the testimony of its witnesses, which clearly confirm the common sense conclusion that Idaho Power sells its power off-peak and at a considerable discount off the on-peak prices.

Clearly, Staff's use of a single forward price curve that is representative of drought conditions and its use of flat pricing both serve to significantly overstate the prices at which Idaho Power will sell surplus energy, and thus underestimate the Company's normalized power supply expense.

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2. Idaho Power Will Have No Opportunity to Earn Its Authorized Rate of Return.

As discussed in Idaho Power's Opening Brief, if the Commission adopts Staff's recommendation, Idaho Power will have no reasonable opportunity to earn its authorized rate of return during the period when rates will be in effect.[24] This is true because, as described above, Staff's normalization methodology produces unrealistically low power supply expense estimates. It is especially true given: (1) the extremely poor hydro conditions expected for the rest of the year; and (2) the fact that the rates adopted in this case will be in effect for only one or two years because Idaho Power plans to file another rate case before the end of 2005.

Staff does not take issue with the fundamental point that, indeed, if Staff's recommendation is adopted the Company will have virtually no chance to earn its rate of return. Instead, Staff argues that the Commission should essentially ignore this reality because: (1) rates should be set based upon normalized estimates; and (2) Idaho Power alone has the right to decide when it will file a rate case.[25] Staff's arguments are not well taken.

First, Idaho Power agrees that rates should be based on normalized estimates, and in fact Idaho Power's recommendation *is* based on normalized expenses. However, the Commission should not ignore the reality that Staff's proposal is so far off that, under expected weather conditions, the result will be particularly damaging to Idaho Power. None of the parties dispute that current drought conditions will substantially increase power supply expenses over the next two years. And no party has disputed the Company's current year expectation of $169 million in power supply expenses. Based upon this expectation of $169 million, if the Commission adopts Staff's recommendation of negative $15.3 in power supply expenses, the Company could face a revenue shortfall of $184.4 million in power supply expenses on a system-wide basis (not

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[24] Idaho Power Opening Brief at 2, 13.
[25] Staff Opening Brief at 12-13.

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considering Idaho jurisdictional treatment or potential deferrals). On an Oregon jurisdictional basis, the under-recovery would be $9.1 million.[26]

Second, Idaho Power has stated on the record that it will be filing a rate case in the near future. Idaho Power is willing to stipulate to that fact in order to remove any further doubt.

CUB takes the position that the Commission should completely disregard the reality that the Company faces during the period in which the rates adopted in this case will actually be in effect. Instead, CUB suggests that if the Company significantly under-recovers in the coming years, it can simply file a deferral application based upon extraordinary conditions.[27] In effect, CUB is suggesting that the Commission adopt what appears to be completely anomalous recommendation for power supply expenses, and if it turns out to be unwise and the Company under-recovers, then the Company can be compensated through a deferral. This approach is not a responsible one.

Deferrals cannot substitute for sound ratemaking policies, primarily because they do not allow for full recovery of prudently-incurred costs. For example, Idaho Power's current deferral includes deadbands under which the Company does not recover *any* of its prudently-incurred expenses, sharing bands under which the Company recovers *only 50%* of prudently-incurred expenses, and an ultimate band under which it recovers *only 20%* of prudently-incurred expenses. Clearly, automatic non-recovery of prudently-incurred expenses are built into deferral mechanisms. Deferral mechanisms are not intended to be, nor are they, acceptable alternatives to setting reasonable base rates.

It is true that prices should be set based upon normalized expenses, and that Idaho Power's power supply expense recommendation *is* based upon normalized numbers. However, this general policy does not compel the Commission to close its eyes to reality. The fact is that drought conditions will result in higher-than-normal power supply expenses for several years,

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[26] Idaho Power/600, Said/2.
[27] CUB Opening Brief at 4-5.

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and the rates adopted in this case will be in effect for only a year or two. Even under the Company's proposal it is virtually certain that it will significantly under-recover during the period of time the rates are in effect. The Commission should not exacerbate this problem by adopting Staff's—or CUB's—proposals.

3. Results Produced by Staff's Methodology are Completely Out of Line with Historical Experience.

In direct testimony, Idaho Power witness Dr. Dennis Peseau discussed the importance of using historical numbers to provide a "reality check" on model results. Dr. Peseau explained:

> For a hydro-based utility such as Idaho Power, however, the estimation of fuel expenses, purchased power, and sales is greatly complicated by the variability of in hydro or water conditions from year to year. And, due to the fat that power supply costs are not symmetric around average water conditions, significant statistical calculations are necessary to predict power costs existent with average water.[28]

Accordingly, given the complicated nature of the modeling exercise demanded, and the very significant difference in results, Dr. Peseau recommends that the parties' recommendations be checked against historical experience. Dr. Peseau's "reality check" quickly reveals both the reasonableness of Idaho Power's recommendation and the fact that Staff's recommendation is completely out of line.

Shown below, Exhibit 702 displays 21 years of Idaho Power's actual net power supply expenses. Superimposed over those annual expenses are both Staff's and Idaho Power's recommended normalized power supply expenses. By comparing the normalized horizontal lines that reflect Staff and Idaho Power's recommendations, one can assess whether either recommendation tends to show any inherent statistical bias. This can be done by observing whether the historical year-by-year actual net power supply expenses incurred by Idaho Power tend to be above and below the normalized estimates on a roughly equal basis. As explained by Dr. Peseau, if an estimate truly reflects normal or average net power costs, one would expect a

[28] Idaho Power/300, Peseau/4-5

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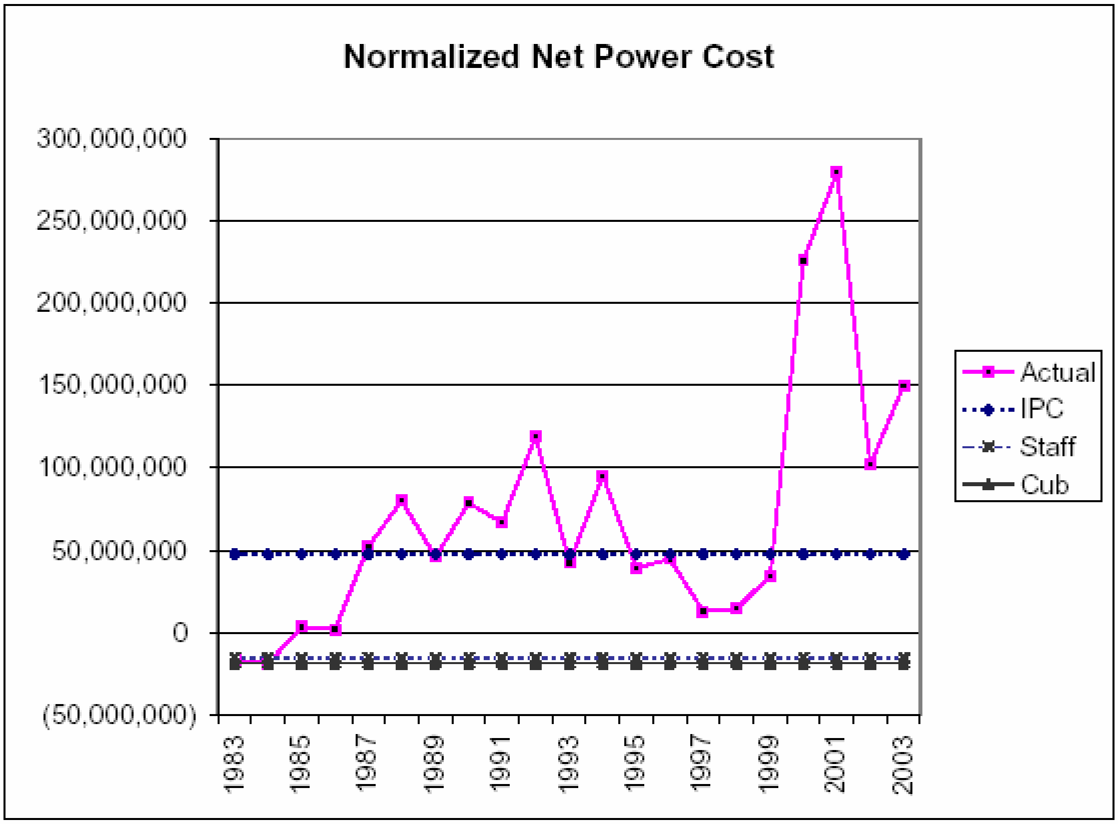
tendency for the individual years making up the average to be on each side of the actual expenses with roughly equivalent frequency.[29]



Significantly, the illustration shows that roughly half (11) of the years of actual historical net power expenses fall below Idaho Power's recommendation of 47.7 million, and roughly half (10) of the years fall above the $47.7 million recommendation, thus confirming the soundness of the Company's recommendation in this case. On the other hand, comparing those same historical numbers with Staff's recommended negative $15.3 million, only the years 1983 and 1984 show actual negative power expenses roughly equal to Staff's proposal. Those two years are the highest water years on record. The remaining 19 years from 1985 to 2003 indicate that

[29] *Id.*

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Idaho Power's actual expenses were all higher than proposed by Staff. Staff's estimate is unusually low and, if adopted, will undercompensate Idaho Power 90% of the time.[30]

Staff and CUB both argue that history is irrelevant in judging the validity of the competing power expense recommendations, stating that "today's power market is vastly different than it was a decade ago."[31] However, neither CUB or Staff provide any real support for this hypothesis—and indeed historical numbers over the past two or three years are no more supportive of Staff's recommendation that those of 10 years ago. The fact is that it is easy for Staff and CUB to trumpet "it's a whole new world," but the Commission should refrain from joining the chorus until there is evidence to support it. Instead, the Commission should heed Dr. Peseau's more conservative advice and adopt the Company's recommendation, which is consistent with historical experience and reasonable expectations.

C. The Commission Should Adopt Idaho Power's Proposed Seasonal Rates

Idaho Power proposes that the Commission adopt its recommendation for seasonal rates. As described in its Opening Brief, the Company's goal is to more closely align energy cost with energy price.[32] Given that Idaho Power's load peaks in the summer, and given that costs increase in the summer months, seasonal rates that increase in the summer will achieve the Company's goals and send better price signals to the customers.

CUB argues the proposed seasonal rate should be rejected because Idaho Power's Oregon residential customers have been a winter-peaking load. CUB reasons that the proposed seasonal rates may therefore decrease the conservation incentive because the customers' highest winter bills may be muted in comparison to their summer bills. CUB also adds that it prefers consistency and simplicity in utility billing.[33]

The Company understands that customers may prefer simplicity in their billing, and

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[30] Idaho Power/300, Peseau/7-8.
[31] Staff Opening Brief at 16, quoting CUB/100, Jenks-Brown/4.
[32] Idaho Power Opening Brief at 16-18.
[33] CUB Opening Brief at 6-7.

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further understands that residential customers' usage patterns differ from the usage patterns of commercial customers. However, CUB's arguments fail to address the fundamental premise that rate design should reflect the costs associated with system load and resource availability as well as specific customer class characteristics. The Company's need for additional resources is driven primarily by the peak summer usage during summer resource scarcity and only secondarily by peak winter usage. By implementing seasonal rates, the Company is striving to signal customers, whose usage contributes to the summer peak, that consumption during the summer months is more costly. Seasonal rates should provide an incentive for those customers to conserve. [34]

Moreover, CUB has provided no evidence to support its intuitive premise that the seasonal rates will eliminate an incentive for customers to reduce their winter electrical usage. CUB flatly asserts that the single largest bill provides the strongest conservation incentive.[35] In fact, customers respond to both rate differences and bill differences. The Company's proposed pricing assigns the same price per kWh for the first 300 kWh throughout the year, and a price differential of 12.56 % between the above-300 kWh summer and non-summer blocks. This is a relatively small differential, but given the Company's residential customers' usage patterns, it should nevertheless send a real and appropriate price signal. This is true because a large number of Idaho Power's Oregon residential customers use electric space heat and, as a result, their winter usage is significantly higher than their summer usage. For this reason, the majority of residential customers' winter bills will continue to be greater than their summer bills.[36] Thus, there is no evidence to suggest that the proposed seasonal rates will have the perverse effect suggested by CUB.

The Company's proposed seasonal rates will provide the appropriate price signals to customers and will increase a conservation incentive. Therefore they should be adopted.

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[34] Idaho Power/800, Pengilly/1-2.
[35] CUB Opening Brief at 6.
[36] Idaho Power/800, Pengilly/3

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D. The Danskin Plant Should Be Included in the Company's Rate Base

As explained in Idaho Power's Opening Brief, the 90 MW Danskin Plant was built in 2001 after Idaho Power's 2000 Integrated Resource Plan ("IRP") identified the need for 250 MW of peaking generation from a simple-cycle natural gas-fired combustion turbine technology as a cost-effective means for meeting summer peaks. The anticipated time of need for a full 250 MW was 2004. The Company's 2000 IRP was acknowledged by the Oregon Commission, and the Idaho Commission granted a certificate of Public Convenience and necessity for Danskin in 2001.[37] In May 2004, the Idaho Commission allowed the rate basing of Danskin.

OICIP argues that Danskin should not be included in rates because it is too expensive. In support of this position, OICIP points out that Danskin is expected to operate only a small fraction of the time, and that its costs per MWh are extremely high. In addition, OICIP argues that Danskin was not really intended to serve as a summer peaking plant, but rather was constructed to take advantage of high energy crisis market prices. OICIP concludes that therefore Danskin is not truly the plant that was contemplated by the Oregon and Idaho IRPs.[38] OICIP's arguments should be rejected.

It is true that Danskin is a relatively expensive plant. However, as noted by Staff, in determining whether or not the expense was prudently incurred, the Commission must measure the reasonableness of the Company's actions *at the time the actions were taken*.[39] Thus, OICIP's focus on the outcome of the decision to build Danskin is misplaced.

As mentioned above, in its 2000 IRP, the Company identified the need to acquire 250 MW of summer resource and 200 MW of winter resource by summer 2004. However, around the time that the IRP was acknowledged, the events surrounding the Western energy crisis spurred the Company to "speed up" its planned acquisition. As explained by Idaho Power:

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[37] Idaho Power Opening Brief at 14.
[38] OICIP Opening Brief at 2-6.
[39] OPUC Order No. 02-469.

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> When the decision to build Danskin was made, the wholesale market price of power was very high. Idaho Power was faced with the prospect of paying extremely high prices to meet load. In February of 2001, Mid-Columbia forward prices for August through December 2001 were $350 - $415/MWh for heavy load hours, and $275 to $300/MWh for light load hours. Therefore Danskin was considered valuable for its ability to contribute to reliability and for its potential to sell into the wholesale market which would have served to lower power supply costs to retail customers. Had the quoted forward prices held, Danskin would have likely operated at full load for the remainder of 2001. In fact, if gas and power prices had remained high in the winter of 2001, Danskin's operation could have reduced net power supply costs to Idaho Power's customers by about $15 million dollars per month. Given these actual market conditions and Idaho Power's potential inability to import sufficient energy due to transmission constraints, a down payment on the turbines was made in early February 2001 and the purchase was completed by mid-March 2001.[40]

Thus, on April 2001 Idaho Power applied to the Idaho Public Utility Commission (IPUC) for a certificate of public convenience and necessity for the 90 MW combustion turbine plant. On July 11, 2001, the IPUC issued a Certificate of Public Convenience and Necessity for Danskin. The IPUC allowed expenses associated with Danskin into rates in May 2004.[41] Given the unusual circumstances that faced the Company, there can be no doubt that at the time the Company acted, the expenses associated with Danskin were prudently incurred.

OICIP's second argument—that Danskin should not be allowed into rate base because it was not the resource contemplated by the Oregon IRP—is similarly off the mark. At the outset it should be noted that IRPs are not intended to provide detailed specifications for the construction of new resources, but rather to identify general resources to be added to the company's portfolio. The Company now owns the 90 MW Danskin and the 168 MW Bennett Mountain simple cycle plants for a combined 258 megawatts. The fact that Danskin represents only a portion of the 250 megawatts identified in the 2000 IRP should not be considered an inappropriate deviation from the IRP. Rather, circumstances suggest that the acquisition of the 90 MW Danskin plant was a

[40] Idaho Power/200, Said/21-22.
[41] *In the Matter of the Application of Idaho Power Company for Authorization to Increase its Interim and Base Rates and Charges for Electric Service*, IPUC Docket No. IPC-E-03-13, Order No. 29505.

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prudent step toward the acquisition of 250 MW of simple cycle combustion turbine generation as identified in the 2000 IRP.

At the time Danskin was built, the Company was faced with extreme and rapidly-evolving market conditions. Prudence *required* the Company to respond as quickly as possible. There was no time for the long and drawn out additional public processes that OICIP suggests should have accompanied any deviations from the specifics of the plant contemplated in the IRP.

There is simply no support for OICIP's position. As stated by Staff, "[g]iven Idaho Power's identified need for power in 2001 and the extraordinary market that existed," the Commission should find that Idaho Power prudently acquired Danskin and should allow the plant to be added to the Company's rate base in Oregon.[42]

CONCLUSION

For the foregoing reasons, as well as those set forth in Idaho Power's Opening Brief, Idaho Power respectfully requests that the Commission affirm and adopt the rates proposed by Idaho Power in its Application, as modified by the Stipulation, including Idaho Power's proposed NPSE, proposed seasonal rates, and inclusion of Danskin in rate base.

Respectfully submitted this 27th day of June, 2005.

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[42] Staff Opening Brief at 22.

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June 27, 2005

VIA EMAIL AND US MAIL

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Re: UE 167 – Idaho Power Company's Reply Brief

Dear Sir or Madam:

Enclosed for filing in the above-referenced docket are the original and five copies of Idaho Power Company's Reply Brief. Please contact me with any questions.

Very truly yours,

Jessica A. Centeno

Enclosures
cc: UE 167 Service List
Bart Kline

CERTIFICATE OF SERVICE
UE 167

I hereby certify that a true and correct copy of **IDAHO POWER COMPANY'S REPLY BRIEF** was served via U.S. Mail on the following parties on June 27, 2005:

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