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.	)

OPENING BRIEF

OF THE

CITIZENS' UTILITY BOARD OF OREGON

June 13, 2005

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I. Introduction

The Citizens' Utility Board highlights two issues in this opening brief: the value of Idaho Power's sales for resale, and the Company's proposed seasonal rate design for residential customers.

First, we look at the determination of power costs included in the revenue requirement. Here we find that Idaho Power's power cost model produces unrealistically low market prices for sale of its excess power and this model result causes Idaho Power's revenue requirement to be much higher than it would be with a more reasonable valuation of the Company's excess generation. In addition, we have to remind Idaho Power that rates are set on a forward-looking, normalized basis, not on the assumption that rates are set for one year, and a drought year at that. Our more realistic value for Idaho Power's excess power, derived from the Power Planning Council's market price projections, reduces Idaho Power company-wide revenue requirement by $66 million.

Second, we explain our opposition to seasonal rates. We think that Idaho Power has not carried its burden in showing that seasonal rates provide a benefit to consumers or provide a conservation incentive to Oregon customers.

In its rate case filing, Idaho Power requested an increase of $4. 4 million in Oregon rates, bringing the Company's Oregon revenue requirement up to $29. 6 million, based on a total system revenue requirement of $602 million. The stipulation negotiated by the parties reduces the Company's proposed Oregon increase to $3. 05 million, resulting in an Oregon revenue requirement of $28. 3 million. CUB's adjustment, to better reflect the value of Idaho Power's excess generation, would reduce Idaho Power's Oregon revenue requirement by an additional $3. 26 million, resulting in a decrease in the Company's current Oregon revenue requirement of approximately $200,000.

II. Power Costs

Power costs are a central issue in this docket, because Idaho Power is in the unique position of having excess generation, under normal circumstances, to serve its load. The value of this excess generation is a contentious issue, and the Company's proposed value of its sales for resale is not reasonable, given current market conditions.

A. Value Of Sales For Resale

Idaho Power's model-produced prices for the sale of its excess hydropower are outside the realm of reasonableness. CUB/Jenks-Brown/100/2-5. Whether one uses, as a point of comparison, the Northwest Power and Conservation Council's regional projected average wholesale prices, as CUB did, or Idaho Power's own forward price curve, as Staff did, Idaho Power's average market electricity price of $21/MWh is unreasonable. CUB/100/Jenks-Brown/3 & Staff/200/Galbraith/8-9.

Flatly stated, Idaho Power's net variable power costs are not realistic. Staff/200/Galbraith/9. As a result of the Company's undervaluation of its excess generation, Idaho Power's proposed revenue requirement is grossly inflated. The Commission must find some more realistic valuation of Idaho Power's net variable power costs in order to establish revenue requirement. Using two different comparators, Staff and CUB came up with a very similar adjustment to net variable power costs. Staff's adjustment is a decrease of $63 million and CUB's is a decrease of $66 million. Staff/200/Galbraith/15 & CUB/100/Jenks-Brown/2.

Idaho Power's case in opposition to these adjustments is that the adjustments do not recognize current drought conditions. The Company's testimony relies heavily on this point. Idaho Power/200/Said/1-19. While the current water year may be below normal, this fact has nothing to do with establishing a revenue requirement and setting rates. If the Commission wants to establish rates the way it always has, and the way it should, on a forward-looking, normalized basis, then the Commission must reduce the Company's net variable power costs by $63 to $66 million.

B. Rate Case Ratemaking

Idaho Power's arguments can be boiled down to two points: 1) this is a drought year and the current conditions should be taken into account when setting rates; and 2) the Company plans to file another rate case in a year, so that the rates set in this rate case should simply look forward one year and include those specific conditions.

General ratemaking is designed specifically to exclude outlying circumstances. By normalizing costs, the Commission can set rates on an on-going basis and the Company can do better or worse than that baseline depending on the circumstances. Extreme and outlier hydro conditions become part of the normalization process as those water years are included in the averages, but the current conditions should not be allowed to swallow the normalization process and drive rates.

Idaho Power's claim that it anticipates filing another rate case before the end of the year is of no moment and should not be considered as part of the ratemaking process. Idaho Power/200/Said/18. Just because the Company assures us that it plans to file another rate case in the near future, does not mean we should abandon the basic regulatory principles of ratemaking. Whether a utility files a rate case every year or every ten should not impact the definition and application of a normalized future test year. Without intending to impugn any party, the utility is still in control of when it files a rate case, and an anticipation of filing a rate case is not a rate case filing. Upon reflection, this is a good reason to set rates on a normalized basis, not based on extreme circumstances. If the Commission were to set rates $66 million too high for one year in anticipation of a drought, and if that drought moderates or if Idaho Power chooses not to file another rate case as planned, then rates will be $66 million too high until the Company files for a new rate case or the Commission hauls the Company in.

Finally, the Company has already taken action that moots its major argument against normalized ratemaking. Idaho Power currently has a deferral mechanism in place to address the hydro conditions this year. The Commission is currently considering this deferral in UM 1198 and the parties have reached an agreement and will be filing a stipulation shortly. Given this mechanism, Idaho Power's two arguments against reducing its net variable power costs, the drought and the short-term rate period that accounts for the drought, are irrelevant. The Commission should adhere to forward-looking, normalized ratemaking that is not bounded by promises of future rate case filings, and should adopt CUB's or Staff's net variable power cost adjustment.

III. Seasonal Rates

Idaho Power supports its request for seasonal rates on the basis that, as rates are going up, customers' conservation incentive will go up too. The Company also bases its argument on the fact that the utility's system as a whole is summer-peaking, thus summer energy costs more, and customers should pay more. Idaho Power/400/Pengilly/1-3.

CUB Exhibit 105 shows that Idaho Power's Oregon residential customers have been a winter-peaking load. Idaho Power's proposal to shift residential rates to raise summer rates relative to winter rates may actually decrease the conservation incentive, as customers' highest winter bills would be muted against their summer bills which would now be higher in comparison. CUB/100/Jenks-Brown/6. CUB is not convinced, and the Company has not demonstrated, that higher summer prices will provide a conservation incentive to historically winter-peaking residential customers.

Customers generally prefer simplicity and consistency in utility billing. As CUB witnesses Jenks and Brown stated,"[i]n the absence of any definitive evidence that this is a good idea, would promote efficiency, or is desired by customers, we recommend that the Commission maintain residential customers' flat annual rate design." CUB/100/Jenks-Brown/5-6.

IV. Conclusion

The arguments Idaho Power has made hold up neither in the numbers (based upon unreasonably low cost of excess generation power costs), nor in its arguments for seasonal rates (which is based on the fallacy of summer-peaking loads in Oregon). We therefore believe that it is not an overstatement to say that the Commission's choice in this case is to adopt Idaho Power's net variable power costs, thereby re-inventing the rules of ratemaking; or to adopt CUB's or Staff's adjustment to net variable power costs, and in so doing uphold the principled ratemaking by which the Commission has decided cases in the past.

Respectfully Submitted,
June 13, 2005,

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CERTIFICATE OF SERVICE

I hereby certify that on this 13th day of June, 2005, I served the foregoing Opening Brief of the Citizens' Utility Board of Oregon in docket UE 167 upon each party listed below, by email and U.S. mail, postage prepaid, and upon the Commission by email and by sending 6 copies by U.S. mail, postage prepaid, to the Commission's Salem offices.

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