BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON

UM 1313

In the Matter of the Application of IDAHO POWER COMPANY for an Accounting Order Regarding Excess Net Power Expenses.

BRIEF IN SUPPORT OF STIPULATION

I. INTRODUCTION

Idaho Power Company ("Idaho Power" or "Company"), Citizens' Utility Board of Oregon ("CUB") and Staff of the Public Utility Commission of Oregon ("Staff") (collectively, "the Parties") submit the following Brief in support of their Stipulation dated April 8, 2009, settling all issues in this docket ("Stipulation").[1]

On April 30, 2007, Idaho Power filed an application requesting authorization to defer for future rate recovery excess net power supply expenses incurred in 2007-2008 water year as a result of extraordinarily low streamflow conditions ("Application"). The Parties agreed to delay consideration of the Application, pending an order by the Public Utility Commission of Oregon ("Commission") on Idaho Power's application for a power cost adjustment mechanism ("PCAM") in UE 195.

On April 28, 2008, the Commission issued Order 08-238, adopting a PCAM for Idaho Power. Given the issuance of that order—and the fact that the Company's PCAM tariff, Schedule 56, tracks power cost deviations on a January through December basis—the Parties have agreed that the deferral calculation negotiated in this docket should apply only to those excess power costs deferred from May 1, 2007 to December 31, 2007. Excess

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[1] Idaho Power submits this brief on its own behalf and on behalf of Staff. CUB is signatory to this brief on its own behalf.

power costs deferred from January 1, 2008 through March 23, 2008 should be handled pursuant to Order No. 08-238, in Idaho Power's 2008 PCAM filing.

II. BACKGROUND

Idaho Power typically generates more than one half of its power through hydro generation. Brownlee Dam and Reservoir are the Company's largest hydro facilities, and are a part of the three-dam Hells Canyon Complex. However, when streamflow conditions are low, the Company must rely more heavily on other, higher cost sources of power. In particular, when hydro generation is down the Company must generate more power through its five thermal generating plants, with resulting higher fuel costs, and also needs to purchase more power on the open market. Such was the case during the 2007-2008 water year, when streamflows were at record lows. In fact, annual inflows into Brownlee during the 2007 water year averaged approximately 13,900 cubic feet per second which is *thirty-two percent lower than normal.* As a result, the Company was forced to generate more power through its five thermal generating plants with resulting higher fuel costs, and forcing the Company to purchase more power on the open market

On April 28, 2008, the Commission issued an order adopting a PCAM for Idaho Power in UE 195, and on March 23, the Company made its March Forecast filing, which the Commission accepted (and approved) in Order No. 08-491 as Idaho Power's application to defer excess power costs under the terms of the PCAM. Notably, the Company's tariff filed to effectuate the PCAM—Schedule 56—provides that the Company will track power cost deviations under the PCAM on a January through December basis.

With the PCAM in place, the Parties notified the Commission that they were prepared to consider the deferral Application in this case. Accordingly, on January 29, 2009 Administrative Law Judge Traci A.G. Kirkpatrick held a prehearing conference at which the Parties agreed to a procedural schedule. The Parties met for settlement discussions on February 17, 2009, and as a result agreed to the Stipulation, described below.

III. STIPULATION

A. Deferral Period:

The Parties agree to support deferred accounting for the period May 1, 2007 through March 23, 2008, the beginning date of the deferral authority granted in Order No. 08-491. However, the Parties agree that the deferral period in this docket should be segregated into two time periods, to allow amounts of excess power costs subject to the PCAM to be deferred under that mechanism's terms, pursuant to Order No. 08-238. Accordingly the Parties agree that the calculation of the excess net power supply expense ("NPSE") incurred from May 1 2007 through March 23, 2008 should be deferred using two different methods.[2] Excess NPSE incurred during the 8-month period from May 1, 2007 through December 31, 2007 ("Period One") should be deferred pursuant to the calculation methodology adopted in this Stipulation. Excess NPSE incurred during the period from January 1, 2008, through March 23, 2008 ("Period Two") should be deferred pursuant to the PCAM agreement established in Order No. 08-238 as part of the Power Cost Variance filing for 2008 and calculated according to the terms of Schedule 56, Power Cost Adjustment Mechanism.

B. Excess Power Costs

Idaho Power's actual NPSE incurred during the Period One deferral period significantly exceeded the amount set in UE 167. Specifically, Idaho Power's actual NPSE during the Period One deferral period was $232,332,940 on a system wide basis. This exceeded the amount recovered in rates for that same time period by $196,708,813 on a system-wide basis, and $9,383,010 on an Oregon jurisdictional basis. The Parties agree that the excess NPSE was the result of the extraordinarily low streamflow conditions

[2] Amounts deferred after March 23rd, 2008 will be deferred pursuant to the Commission's Order on the March 23rd deferral petition described above.

described above, and that absent a deferral, these excess power costs would impose a significant financial impact on the Company.

C. Agreed Upon Deferral Methodology for Period One Excess NPSE

The Parties agreed to use the following methodology to identify excess NPSE and to calculate that portion of Period One excess NPSE to be deferred:

Methodology for Determining Excess NPSE:

- Actual NPSE is the actual expenses recorded in FERC Accounts 501, 547, 447, and 555 accumulated by month on a system wide basis beginning May 1, 2007 and ending December 31, 2007;
- Actual Sales is the amount of energy required to meet customer demand;
- The Actual Power Cost per Unit is the Actual NPSE divided by the Actual Sales. For the Period One deferral, the Actual Power Cost per Unit was $22.63 per MWh;
- The Base NPSE collected in rates is $3.47 per MWh, established in the Company's last general rate case, UE 167;
- The Excess NPSE for Period One is determined by multiplying the Actual Sales by the difference between the Actual Power Cost per Unit and the Base NPSE collected in rates. The Excess NPSE on a system basis is $196,708,813;
- The Excess NPSE is multiplied by the Oregon Allocation Factor (4.77% from the 2007 RoO) to determine the Oregon allocated excess NPSE for this period, which is $9,383,010;

Method for Calculating Recoverable Excess NPSE

- Deadbands and sharing values are henceforth determined on an Oregon allocated basis using the rate base and cap structure from the 2007 RoO;
- The Parties agree the Excess NPSE should be subject to deferral deadbands and deferral sharing bands. In recognition of the fact that the Period One deferral period is made up of just 8 months—or two thirds of a year—the Parties agree upon "annualized" deadbands and sharing bands and agree to multiply these by two thirds. Accordingly the Parties agree that the deferral deadband should be the amount of Oregon Excess NPSE equal to the value of two thirds of 250 Basis Points ("BP") of return on equity ("ROE"). This amount would not be subject to recovery and would not be deferred. The amount of

Oregon Excess NPSE greater than the value of two thirds of 250 BP of ROE but less than or equal to two thirds of 400 BP of ROE is subject to a 50/50 cost sharing, and as such 50% of this amount should be subject to deferral; this is the first sharing band. Any Oregon Excess NPSE greater than the value of two thirds of 400 BP of ROE is subject to a 80/20 customer/company cost sharing so 80% of the remaining Oregon Excess NPSE should be subject to deferral; this is the second sharing band.

- The first and second sharing bands are totaled to determine the Oregon Excess NPSE deferral amount of $6,357,821, including interest on the Oregon deferral amount calculated at the Company's authorized rate of return through December 31, 2007;
- An adjustment of $857,513, including interest calculated at the Company's authorized rate of return through December 31, 2007, to credit customers for 90% of the Oregon allocated after tax benefits of sales of SO2 emission allowances for the period May 1, 2007-December 31, 2007 is made to the Oregon deferral amount.
- The deferral amount calculated in accordance with this methodology is $5,500,307.

D. Amortization

The Parties agree that Idaho Power provided evidence that its earnings during the deferral period did not exceed authorized levels; therefore, subject to a prudence review, the amounts deferred should be recovered by the Company. However, the Parties also recognize that any deferral amount authorized by the Commission in this case will not be amortized until after deferrals authorized in Order 01-307 (UM 1007) and Order 07-555 (UM 1261)—and any other amounts approved for amortization prior to Commission approval in this docket—have been fully amortized. The Company will file a request for an order allowing amortization of any deferral amount authorized by the Commission in this docket prior to the date on which all deferral amounts amortized before approval in this docket have been fully amortized.

E. Interest

Beginning from the end of the deferral period (December 31, 2007) interest should accrue monthly on the unamortized portion of the deferred account at the Company's authorized rate of return. Upon issuance of a Commission order authorizing amortization, the interest rate that should be applied is the rate determined by the methodology adopted by the Commission in the third phase of UM 1147 (which encompasses the exception rate that will be adopted for Idaho Power in that docket).

IV. DISCUSSION

Under ORS 757.259 the Commission may order deferral of identifiable utility expenses in order to minimize the frequency of rate changes or to match appropriately the costs borne and the benefits received by ratepayers. In determining whether deferral is appropriate, the Commission takes into consideration the conditions giving rise to the deferral and the magnitude of the financial effect on the Company. In the case of deferrals resulting from hydro variability, the Commission has suggested that deferral is appropriate where the event giving rise to the costs is "extraordinary" and the financial impact on the Company is "substantial."[3]

In this case, the Parties agree that the hydro conditions giving rise to the excess power costs were extraordinary, and that impact is substantial in light of the Company's relatively low revenues in the State of Oregon. Moreover, the Parties agree that the excess power costs deferred in this case produced a benefit for Idaho Power's customers, and that deferral is necessary in order to better match costs with benefits. While the Parties recognize that the Commission will not determine the prudence of the relevant expenditures until amortization, at this point in time, the Parties agree that the amounts deferred appear to have been prudently incurred.

The Parties also agree that the method for calculating the deferral is reasonable, as is the resulting deferral amount of $5,500,307, and that the granting of the deferral will result in fair and reasonable rates for Idaho Power's customers.

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[3] Order No. 04-108, issued in UM 1071, p. 9.

V. CONCLUSION

For all of the above reasons, the Parties request that the Commission adopt the Stipulation.

Dated: April 8, 2009

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for

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