

**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON
UM 1147**

In the Matter of)	
)	
PUBLIC UTILITY COMMISSION OF)	IDAHO POWER COMPANY'S
OREGON)	OPENING COMMENTS
)	
Staff's Request To Open An)	
Investigation Related To Deferred)	
Accounting.)	
_____)	

Pursuant to the Hearing Officer's Status Conference Memorandum issued November 5, 2004, Idaho Power Company ("Idaho Power" or "Company") submits the following opening comments addressing the issues identified in the November 5, 2004 Status Conference Memorandum.

INTRODUCTION

It has been Idaho Power's experience that the Commission's existing policies and procedures for processing and determining requests for deferral accounting have generally been efficient and adequate. Of course, with any policy-driven process, additional clarification of intent and direction from the Commission can be very useful.

Idaho Power is concerned that the end product of this investigation may be a complex, overly rigid policy that fails to adequately recognize the unique circumstances faced by Idaho Power due to its limited presence in the state of Oregon. For example, a fixed-dollar materiality requirement that might be appropriate for Portland General Electric, Northwest Natural or PacifiCorp may not be fair or reasonable when applied to Idaho Power. In Idaho Power's experience, the existing policies and procedures for processing and deciding deferral requests have worked reasonably well and with some clarification and minor fine-tuning can continue to serve the public interest.

SPECIFIC ISSUES

In the November 5, 2004 Status Conference Memorandum, Judge Kirkpatrick indicated that the parties should address the policy attributes of the ten issues identified on Appendix A to the November 5, 2004 Status Conference Memorandum. Idaho Power's response to each of those issues is as follows:

Issue No. 1: Should the requirements for a deferral request differ depending on the circumstances underlying the request, e.g., materiality requirements that differ depending on whether the costs at issue are associated with stochastic risk or scenario risk?

Response: It has been Idaho Power's experience that without explicitly categorizing a cost-causing event as stochastic or scenario, the Commission has considered Idaho Power's requests for deferral using analyses that implicitly apply these risk parameters.

Idaho Power believes that any determination of what is an immaterial, material or substantial financial effect should be utility-specific. What is material for Idaho Power may not be material for PacifiCorp or NorthWest Natural. Common sense indicates that an event that has an immaterial financial effect would not trigger a request for deferral. However, if the financial effect of a cost-causing event, even an event that might fall within the stochastic definition, is *material* to an individual utility, that utility should have the opportunity to ask the Commission to consider whether deferral may be appropriate. The Commission can then exercise its judgment and experience to review the facts, determine whether the financial effect is material, and decide whether deferral is appropriate.

Issue No. 2: For what types of deferrals should the Commission apply the concept of a normal risk range? How should it determine the size of the range?

Response: Idaho Power believes that the type of deferrals to which a normal risk range would be applied as well as the size of the normal risk range will be different for each utility. It is important to remember that for ratemaking purposes, some Idaho Power expenses are set at test-year levels and other are normalized. Idaho Power has requested and obtained authority from this Commission to defer expenses for new expense items not encountered in the test year, such as costs arising out of increased security associated with September 11th heightened security concerns, Y2K costs and other clearly unique items. The Company has also obtained deferral for normalized items, such as power supply expenses, when extremely adverse water flows coincided with market prices that were substantially higher than what was anticipated in any normalized power supply expense scenario.

Idaho Power believes that determining whether a particular event represents a stochastic risk or is of a magnitude to fall within the “normal” risk range requires consideration of multiple factors. For example, in the most recent deferral obtained by the Company for extraordinary power supply expenses, the Commission considered the fact that the Company was experiencing the coincidence of extremely adverse water flows and extremely high wholesale market prices. In considering the Company’s request for deferral, the Commission also recognized that Idaho Power is particularly dependent on hydroelectric generation to supply energy to carry loads. The Commission also acknowledged the impact of the abnormal expenses on the Company’s earnings and return and concluded that the totality of conditions had a particularly adverse effect on Idaho Power Company’s earnings thereby justifying a deferral.

Idaho Power is concerned that one of the possible outcomes of this proceeding will be an inflexible interpretation of what constitutes the normal type and amount of risk that Idaho Power should absorb between rate cases. One example of an overly rigid policy would be the use of normalized hydro conditions as a litmus test for what constitutes normal or stochastic risk. Idaho Power uses 76 years of hydrologic records to determine its normalized power supply expenses. The likelihood that a water condition will occur that would fall outside those boundaries is very low. If the occurrence of a “stochastic” event, i.e., a water condition that falls within the extremes used to determine normalized water conditions, is the only test applied, it is unlikely that Idaho Power would ever have an opportunity to obtain deferral based solely on an event being outside the range of potential water conditions. However, if the Company

experiences water conditions at the extreme low end of the spectrum, while at the same time experiencing market prices well above the norm, the Company ought to have the right to seek deferral and let the Commission exercise its judgment and discretion to determine if a deferral is appropriate and in the public interest.

It would be unreasonable for the Commission to adopt a rigid test that precludes deferral based on a cost-causing event within the extremes used to set normalized power supply expenses without considering all other circumstances. Circumscribing the Commission's ability to use its experience and judgment in these instances is not in the public interest.

Issue No. 3: Should deferral be limited to the costs associated with the cost-causing factors identified in the original application for deferred accounting?

Response: Idaho Power understands that it has the burden of proof and the burden of persuasion and is obligated to identify the cost-causing factors and netting effects of an event as a part of its original request for a deferred accounting order. Idaho Power also believes that the Commission has the capability to assess whether or not (1) Idaho Power has carried its burdens; (2) whether the costs requested are legitimately related to the cost-causing events described in the request; and (3) whether a particular deferral is in the public interest. Creating a rigid, technical process that encourages disputes as to whether a particular cost was related to a specific cost-causing event that was specifically identified in the application is not necessary or desirable.

Issue No. 4: What interest rate should be applied to a deferral balance?

Response: The interest rate that should be applied to deferral balances is the Company's authorized overall rate of return. This rate represents a reasonable proxy for the utility's cost of money during the term of the deferral. Trying to peg the interest rate to track the relative risk of each individual deferral application is subjective and will add unneeded complexity to the process.

Issue No. 5: What should be the filing requirements and process for deferred accounting investigations?

Response: The current practice requires a showing of material financial impact without the deferral. Idaho Power carries the burden of proving its case. In Idaho Power's experience, when additional information is requested to support the need for a deferral, the Commission's normal data request process has worked well. In addition, the *actual* financial impact is quantified prior to amortization and inclusion in rates.

Issue No. 6: What are the alternatives to deferred accounting for recovery of excess utility costs or revenues between rate cases?

Response: Idaho Power has a Power Cost Adjustment mechanism in place in its Idaho jurisdiction that the Company believes has worked well to balance the interests of customers and the Company. A similar power cost adjustment mechanism is a logical way to deal with both costs and revenues between rate cases.

Issue No. 7: Do the Commission's deferred accounting practices and procedures ensure symmetrical treatment of deferrals for excess utility costs and deferrals for excess utility revenues?

Response: It does not appear to Idaho Power that current practices and procedures for deferrals are asymmetrical.

Issue No. 8: Should there be an overall cap on the amount of costs that a utility can defer in one year?

Response: No. Regardless of the amounts deferred, ORS 757.259 caps the amount of deferred costs that Idaho Power can recover in any year. In Idaho Power's case, that amortization cap has proven to be very effective in limiting the inclusion of deferred costs in customer rates. At current Oregon gross revenue levels it will take Idaho Power approximately seven (7) years to amortize the amounts currently deferred. Putting a cap on the level of deferrals in addition to the cap on amortization levels is not necessary or fair.

Issue No. 9: What must applicant show to demonstrate that a deferral under ORS 757.259(2)(e) will either (a) minimize the frequency of rate changes or fluctuation of rate levels, or (b) match ratepayer benefits and costs?

Response: Idaho Power acknowledges that it has the burden of demonstrating compliance with the referenced statute when it requests a deferral. Additional direction from the Commission as to what information it needs to assess the utility's compliance with the statute would be useful. However, establishing rigid, overly-technical rules could restrict the Commission's ability to apply its experience and judgment in reviewing the reasonableness of the utility's request.

Issue No. 10: What types of costs are eligible for deferred accounting, e.g., do the costs have to be extraordinary, unanticipated, nonrecurring, and/or discrete?

Response: Please refer to Idaho Power's comments on Issue No. 1.

DATED this 14th day of January, 2005.

/s/ Barton L. Kline

Barton L. Kline
Idaho Power Company
P.O. Box 70
Boise, ID 83707-0070
(208) 388-2682
(208) 388-6936 (FAX)
BKline@idahopower.com

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 14th day of January, 2005, I served a true and correct copy of the within and foregoing IDAHO POWER COMPANY'S OPENING COMMENTS upon the following named parties by the method indicated below, and addressed to the following:

Stephanie S. Andrus
Department of Justice
1162 Court Street N.E.
Salem, OR 97301-4096

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 E-mail

Matthew W. Perkins
Davison Van Cleve PC
1000 S.W. Broadway, Suite 2460
Portland, OR 97205

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 E-mail

Jason Eisdorfer
Citizens' Utility Board of Oregon
610 S.W. Broadway, Suite 308
Portland, OR 97205

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 E-mail

Jon Stoltz
Cascade Natural Gas
P.O. Box 24464
Seattle, WA 98124

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 E-mail

Edward A. Finklea
Cable Huston Benedict Haagensen & Lloyd
1001 S.W. 5th, Suite 2000
Portland, OR 97204

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 E-mail

S. Bradley Van Cleve
Davison Van Cleve, PC
1000 S.W. Broadway, Suite 2460
Portland, OR 97205

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 E-mail

Judy Johnson
Public Utility Commission of Oregon
P.O. Box 2148
Salem, OR 97308-2148

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 E-mail

Katherine Barnard
Cascade Natural Gas
P.O. Box 24464
Seattle, WA 98124

Hand Delivered
 U.S. Mail
 Overnight Mail
 FAX
 E-mail

