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May 13, 2011

VIA ELECTRONIC AND U.S. MAIL

PUC Filing Center
Public Utility Commission of Oregon
PO Box 2148
Salem, OR 97308-2148

Re: UE 222 - In The Matter of IDAHO POWER COMPANY's 2011 Annual Power Cost Update

Attention Filing Center:

Enclosed for filing in the above-referenced docket are an original and five copies of the Joint Explanatory Brief, in support of the Stipulation filed Tuesday, May 10, 2011.

A copy of this filing has been served on all parties to this proceeding via email as indicated on the attached certificate of service. Please contact me with any questions.

Very truly yours,

A handwritten signature in cursive script that reads "Wendy McIndoo".

Wendy McIndoo
Legal Assistant

Enclosures
cc: Service List

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CERTIFICATE OF SERVICE

I hereby certify that I served a true and correct copy of the foregoing document in
UE 222 on the following named person(s) on the date indicated below by email and first-
class mail addressed to said person(s) at his or her last-known address(es) indicated below.

Ed Durrenberger Public Utility Commission of Oregon ed.durrenberger@state.or.us	Robert Jenks Citizens' Utility Board of Oregon bob@oregoncub.org
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DATED: May 13, 2011


Wendy McIndoo
Legal Assistant

1 **BEFORE THE PUBLIC UTILITY COMMISSION**
2 **OF OREGON**

3 **UE 222**

4 In the Matter of:

5 Idaho Power Company's 2011 Annual
6 Power Cost Update

JOINT EXPLANATORY BRIEF

7 This brief explains and supports the Stipulation filed in this proceeding on the May 10,
8 2011, among Idaho Power Company ("Idaho Power" or "Company"), Staff of the Public Utility
9 Commission of Oregon ("Staff"), and the Citizens' Utility Board of Oregon ("CUB") (together,
10 the "Parties"). The Stipulation resolves all issues raised by the Parties related to Idaho
11 Power's 2011 Annual Power Cost Update.

12 **I. BACKGROUND**

13 **A. Idaho Power's Annual Power Cost Update and Power Cost Adjustment**
14 **Mechanism.**

15 In Order No. 08-238 the Commission approved an automatic adjustment clause that
16 allows Idaho Power to annually update its net power supply expense included in rates.¹ This
17 automatic adjustment clause is referred to as the Annual Power Cost Update ("APCU") and
18 has two components—an "October Update" and a "March Forecast." The October Update
19 contains the Company's forecasted net power supply expense reflected on a normalized and
20 unit basis for an April through March test period. The March Forecast contains the Company's
21 net power supply expense based upon updated actual forecasted conditions. The rates from
22 the October Update and March Forecast become effective on June 1 of each year.

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26 ¹ *Re Idaho Power Company's Application for Authority to Implement a Power Cost Adjustment*
 Mechanism, Docket UE 195, Order No. 08-238 (Apr. 28, 2008).

1 **B. The 2011 APCU.**

2 On October 15, 2010, Idaho Power filed testimony and exhibits as well as its revised
3 Schedules for the 2011 APCU ("2011 October Update").² Pursuant to Order No. 08-238 the
4 2011 October Update updated, among other things, the following variables: loads, fuel prices,
5 transportation costs, power contracts, heat rates, and planned and forced outage rates for
6 thermal plants.³ The 2011 October Update also included updated plant capacities for all
7 Company-owned resources and updated sales and load forecasts.⁴ The primary drivers of
8 the changes reflected in the 2011 October Update were changes in coal prices, PURPA
9 generation and expenses, and the Company's Special Contract with Hoku Materials, Inc
10 ("Hoku").⁵ The 2011 October Update resulted in a per unit rate of \$16.96 per megawatt-hour
11 ("MWh"), or \$247,467,046 in system-wide net power supply expense.⁶

12 This filing also reflected the allocation of the APCU's revenue requirement approved by
13 the Commission in Order No. 10-191.⁷ Pursuant to that order the Company allocates the
14 APCU revenue requirement to individual customer classes on the basis of the total
15 generation-related revenue requirement approved in the Company's last general rate case,
16 instead of the previous equal cents per kWh approved in Order No. 08-238. Order No. 10-191
17 also directs the Company to adjust its base rates to reflect changes in revenue requirement
18 related to the October Update, while the rates resulting from the March Forecast are listed on
19 Schedule 55.

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² See Idaho Power/100.

22 ³ Idaho Power/100, Wright/2, ll. 14-16.

23 ⁴ Idaho Power/100, Wright/2, ll. 16-18.

24 ⁵ Idaho Power/100, Wright/3-5.

25 ⁶ Idaho Power/203.

26 ⁷ *Re Idaho Power Company's 2010 Annual Power Cost Update*, Docket UE 214, Order No. 10-191 (May 24, 2010).

1 On November 18, 2010, Administrative Law Judge Allan J. Arlow held a prehearing
2 conference at which the Parties agreed upon a procedural schedule that would allow the
3 Commission to issue an order on Idaho Power's 2011 APCU prior to the rate-effective date of
4 June 1, 2011.⁸

5 Staff and CUB served discovery on Idaho Power and conducted a thorough investigation
6 of the 2011 October Update. Staff's testimony, filed on January 25, 2011, concluded that the
7 Company's 2011 October Update conformed to the requirements of Order No. 08-238 and
8 that the Company's analysis and calculations were correct.⁹ Likewise, CUB filed testimony on
9 that same day and indicated that it had analyzed the 2011 October Update and raised several
10 issues through discovery that were adequately addressed by the Company. CUB did not
11 raise any substantive issues in its testimony.¹⁰

12 Although the procedural schedule called for Idaho Power to file surrebuttal testimony on
13 February 22, 2011, because there were no issues in dispute, the Company did not file this
14 testimony.

15 On March 23, 2011, the Company filed its 2011 March Forecast, which consisted of
16 direct testimony describing the Company's estimate of the expected net power supply
17 expense for the upcoming water year.¹¹ Although Order No. 08-238 calls for the March
18 Forecast to update several variables, the Company's 2011 March Forecast updated only
19 variables that had changed since the 2011 October Update.¹² These variables were fuel
20 prices, forecast normalized sales and loads, forecast hydro generation, known power
21 purchases and sales, and the forward price curve.¹³ The fuel prices were updated to reflect a

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⁸ *Prehearing Conference Memorandum* at 1 (Nov. 18, 2010).

23 ⁹ See Staff/100, Durrenberger/2-5.

24 ¹⁰ See CUB/100, Feighner/1.

25 ¹¹ See Idaho Power/200.

26 ¹² Idaho Power/200, Wright/1, I. 15 - 2, I. 14.

¹³ Idaho Power/200, Wright/2, II. 8-14.

1 reduction in natural gas prices and an increase in coal costs.¹⁴ The sales and load forecast
2 was updated to reflect a revised delivery schedule for Hoku.¹⁵ And the hydro update reflected
3 changes in forecast streamflow and reservoir levels resulting in forecasts that are closer to
4 average, as compared to last year.¹⁶

5 The Company calculated a cost per unit for the 2011 March Forecast of \$18.03 per
6 MWh, which is \$1.90 per MWh less than last year's cost per unit of \$19.93 per MWh.¹⁷ This
7 equates to a system-wide net power supply expense of \$259,506,170.¹⁸

8 Combining the 2011 October Update and 2011 March Forecast resulted in a cost per
9 unit of \$17.98 per MWh.¹⁹ The overall revenue impact of the 2011 October Update and March
10 Forecast is a 2.17 percent average overall *decrease* from last year's cost per unit.²⁰

11 The 2011 March Forecast also implemented the Commission's Order No. 10-414 in
12 Docket UM 1355,²¹ although no adjustments to the Equivalent Forced Outage Rate ("EFOR")
13 were necessary because the Company's EFOR was within the Commission's collar.²² Like
14 the 2011 October Update, the 2011 March Forecast also used the Commission-approved
15 revenue requirement allocation method from Order No. 10-191.²³

16 On March 23, 2011, the Company also filed Advice No. 11-05—a revision to the
17 Company's tariffs to reflect the rates reflected in its 2011 October Update and March Forecast.

19 ¹⁴ Idaho Power/200, Wright/2, II. 15 - 3, I. 7.

20 ¹⁵ Idaho Power/200, Wright/3, II. 8-15.

21 ¹⁶ Idaho Power/200, Wright/3, I. 16 - 4, I. 4.

22 ¹⁷ Idaho Power/200, Wright/5, II. 16-26.

23 ¹⁸ Idaho Power/203.

24 ¹⁹ Idaho Power/203.

25 ²⁰ Idaho Power/200, Wright/7, II. 16-21.

26 ²¹ *Re Investigation into Forecasting Forced Outage Rates for Electric Generating Units*, Docket UM 1355,
Order No. 10-414 (Oct. 22, 2010).

²² Idaho Power/200, Wright/4, I. 10-5, I. 2.

²³ Idaho Power/200, Wright/6, I. 17 - 7, I. 7.

Staff, CUB, and Idaho Power participated in settlement conferences on January 6, 2011, and April 18, 2011. At the settlement conferences the parties discussed substantive issues on which the parties to the docket had outstanding concerns. At the April 18, 2011, conference the parties reached full settlement on all issues in this docket.

II. DISCUSSION

A. Terms of the Stipulation.

In the Stipulation the Parties agree that: (1) the Company's filed cost per unit of \$17.98 per MWh conforms to the methodology adopted by the Commission in Order No. 08-238;²⁴ (2) the Company's allocation methodology conforms to that adopted by the Commission in Order No. 10-191;²⁵ and (3) the Company properly implemented Order No. 10-414 with respect to calculating its outage rates.²⁶

Because the Parties agree that the Company's filed cost per unit rate and allocation methodology is correct, the Parties also agree that the Company's revised tariff sheets filed on March 23, 2011,²⁷ reflect the terms of this Stipulation and should be made effective on June 1, 2011.²⁸

B. The Stipulation Will Result in Just and Reasonable Rates.

The Commission will approve a stipulation if it is an appropriate resolution of the issues in a case²⁹ and results in just and reasonable rates.³⁰ When evaluating these rates, the

²⁴ Stipulation ¶ 17.

²⁵ Stipulation ¶ 19.

²⁶ Stipulation ¶ 20.

²⁷ The March 23rd filing was Advice No. 11-05. A supplemental filing was made on March 30, 2011, that included replacement pages for the March 23rd filing. The supplemental filing was made under the same advice number.

²⁸ Stipulation ¶ 18.

²⁹ See *Re PacifiCorp's 2010 Transition Adjustment Mechanism*, Docket UE 207, Order No. 09-432 at 6 (Oct. 30, 2009) ("The Commission concludes that the Stipulation is an appropriate resolution of all primary issues in this docket."); See *Re PacifiCorp Request for a General Rate Revision*, Docket UE 210, Order No. 10-022 at 6 (Jan. 26, 2010) ("When considering a stipulation, we have the statutory duty to

Commission examines “the reasonableness of the overall rates.”³¹ Here, the Parties agree that the Company’s filed case correctly calculated the cost per unit rate using the methodology approved by the Commission in Order No. 08-238. The Parties also agree that the Company’s proposed rate spread conforms to the methodology approved by the Commission in Order No. 10-191 and that the Company correctly implemented Order No. 10-414 when calculating its outage rates. Because the Company’s filed case reflects correct calculations that conform to Commission precedent, the resulting rates are just and reasonable and fall within the “range of reasonableness” for resolution of these issues.³²

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make an independent judgment as to whether any given settlement constitutes a reasonable resolution of the issues.”).

³⁰ See *Re. PacifiCorp Request for a General Rate*, Docket UE 217, Order No. 10-473 at 7 (Dec. 14, 2010) (“We have reviewed the Stipulation, and find that it will result in rates that are fair, just, and reasonable.”).

³¹ *Re. Application of Portland General Electric Co. for an Investigation into Least Cost Plant Retirement*, Docket DR 10 *et al.*, Order No. 08-487 at 7-8 (Sept. 30, 2008).

³² See *Re US West*, Docket UM 773, Order No. 96-284 at 31 (Nov. 1, 1999).

