

July 1, 2005

VIA ELECTRONIC MAIL AND US MAIL

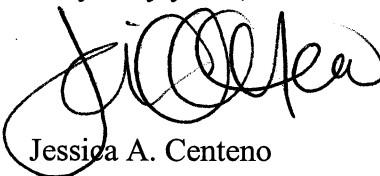
Filing Center
Oregon Public Utility Commission
550 Capitol Street NE #215
PO Box 2148
Salem, OR 97308-2148

Re: UM 1198 - Stipulation and Supporting Testimony

Dear Sir or Madam:

Enclosed for filing in the above-named docket is the original Stipulation and Joint Testimony in Support of Stipulation. Please note that Exhibits 101, 102, and 103 are not attached and will be filed on Tuesday, July 5. Please contact this office with any questions.

Very truly yours,



Jessica A. Centeno

Enclosures

cc: UM 1198 Service List

**CERTIFICATE OF SERVICE
UM 1198**

I hereby certify that a true and correct copy of **STIPULATION AND JOINT TESTIMONY IN SUPPORT OF STIPULATION** was served via U.S. Mail on the following parties on July 01, 2005:

Ms. Stephanie S. Andrus
Oregon Department of Justice
General Counsel Division
100 Justice Building
1162 Court Street NE
Salem OR 97301

Lowrey R. Brown
Citizens' Utility Board of Oregon
Suite 308
610 SW Broadway
Portland OR 97205

Jason Eisdorfer
Citizens' Utility Board of Oregon
Suite 308
610 SW Broadway
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ATER WYNNE LLP



Jessica A. Centeno

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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON
UM 1198**

In the Matter of

IDAHO POWER COMPANY for

Application for an Accounting Order Regarding
Excess Net Power Expenses

**JOINT DIRECT TESTIMONY
OF
MAURY GALBRAITH
MICHAEL J. YOUNGBLOOD
AND
LOWREY BROWN**

JULY 1, 2005

1 **Q. Please state your names, occupations, and business addresses.**

2 A. My name is Maury Galbraith. I am employed by the Public Utility Commission of
3 Oregon ("Staff") as a Senior Economist. My business address is 550 Capitol Street NE,
4 Suite 215, Salem, Oregon 97301-2551. My qualifications are shown on Idaho
5 Power/Staff/CUB Exhibit 101.

6 My name is Michael J. Youngblood. I am employed by Idaho Power Company
7 ("Idaho Power") as the Regulatory Affairs Representative. My business address is 1221
8 West Idaho Street, Boise, Idaho 83702. My qualifications are shown on Idaho
9 Power/Staff/CUB Exhibit 102.

10 My name is Lowrey Brown. I am a Utility Analyst for the Citizens' Utility Board
11 of Oregon ("CUB"). My business address is the Citizens' Utility Board of Oregon, 610
12 SW Broadway, Suite 308, Portland, Oregon 97205. My qualifications are listed on
13 Exhibit Idaho Power/Staff/CUB 103.

14 **Q. Are Staff, Idaho Power and CUB (the "Parties") all of the Parties to this**
15 **proceeding?**

16 A. Yes.

17 **Q. What is the purpose of your joint testimony?**

18 A. The purpose of our joint testimony is to describe and support the Stipulation dated July 1,
19 2005 ("the Stipulation") of the Parties to settle all of the issues arising out of Idaho
20 Power's March 2, 2005 Application for authority to defer for future rate recovery certain
21 excess net power supply expenses. The Stipulation is being submitted to the Commission
22 as Idaho Power/Staff/CUB Exhibit 104.

23 **Q. Could you summarize the major issues addressed in the Stipulation?**

24 A. First, the Stipulation describes the Parties' agreement that the continuing drought and
25 adverse hydroelectric generating conditions on Idaho Power's system constitute the type

1 of event that merits deferral of expenses for future recovery in rates. Second, the
2 Stipulation confirms the Parties' agreement that without deferred accounting these
3 hydroelectric generation conditions are expected to result in excess net power supply
4 expenses that are expected to impose a significant financial impact on the Company.
5 Third, the Stipulation describes the agreed-upon methodology to be used to compute the
6 amount of the excess power supply expense to be deferred. This agreed-upon
7 methodology includes the "dead band" and sharing mechanisms proposed by Idaho
8 Power in its initial application. Finally, the Stipulation confirms that the base level of net
9 power supply expense against which the Company's actual net power supply expenses
10 will be compared will be the normalized net power supply expense determined by the
11 Commission in Idaho Power's currently-pending general rate case, Docket No. UE 167.

12 **Authorization of Deferred Accounting**

13 **Q. Do all of the Parties agree that Idaho Power should be authorized to defer its excess**
14 **net power supply expenses for the period March 2, 2005, through February 28,**
15 **2006?**

16 **A.** Yes.

17 **Q. Do all of the Parties agree that the 2005 hydro conditions and the effect of the**
18 **continuing drought on hydroelectric generation on Idaho Power's system are**
19 **expected to represent an extraordinary event that is outside the range of normal**
20 **variability and therefore should be considered for deferred accounting?**

21 **A.** Yes. At the time of the Company's Application in this proceeding, the streamflow
22 conditions within Idaho Power's service territory were close to record lows. The
23 February 25, 2005 report from the Northwest River Forecast Center predicted 2.02 maf
24 (million acre feet) for the Snake River entering Brownlee Reservoir for the April through
25 July runoff timeframe. Since the time the Brownlee Dam and Reservoir were

1 constructed, only calendar years 1977 (1.88 maf) and 1992 (1.80 maf) had April through
2 July Brownlee inflow volumes lower than the inflows then projected for 2005. The
3 forecast for 2005 annual inflows was 7.4 maf, the second lowest in the Company's
4 history, second only to 1992 at 6.5 maf. The 44-year average annual inflow into
5 Brownlee (since the construction of Brownlee Dam and Reservoir) is 14.1 maf.

6 Recent rain received within Idaho Power's service territory has improved the
7 streamflow conditions only slightly. The June 17, 2005 forecast from the Northwest
8 River Forecast Center predicts the April through July inflow into Brownlee Reservoir to
9 be 3.19 maf, still well below the 5.7 maf average. The annual inflows are now forecasted
10 to be 8.4 maf, still far below the 44-year average annual inflow into Brownlee Reservoir
11 of 14.1 maf.

12 This is the sixth consecutive year of drought on the Snake River. All of the
13 Parties agree that the anticipated extreme hydro conditions Idaho Power is currently
14 experiencing are sufficiently abnormal as to justify the use of deferred accounting.

15 **Q. Do the Parties agree that excess net power supply expenses the Company expects to**
16 **incur as a result of the adverse hydro conditions currently being experienced on**
17 **Idaho Power's system are expected to constitute a substantial financial impact on**
18 **the Company?**

19 **A.** Yes. The Company estimates that using the base power supply expense of \$47.7 million
20 contained in its UE 167 filing would result in an estimated excess power supply expense
21 of \$121.3 million and have a financial impact of 966 basis points of return on equity.
22 Using the Staff's proposed base power supply expense of -\$15.3 million results in excess
23 power supply expenses of \$184.3 million and a financial impact of 1,468 basis points of
24 return on equity. A table showing how the above-described basis point amounts are
25 calculated is attached as Idaho Power/Staff/CUB Exhibit 105. Based on this analysis, the

1 Parties concluded that under either UE 167 scenario, the financial impact on the
2 Company is sufficient to justify deferral.

3 **Stipulated Deferral Mechanism**

4 **Q. Does the Stipulation resolve all of the issues arising from and relating to Idaho
5 Power's Application in this case?**

6 **A.** Yes.

7 **Q. Please describe the Parties' Agreement regarding how the excess net power supply
8 expense will be shared between customers and shareholders.**

9 **A.** The Parties agreed to accept the sharing mechanism proposed by the Company in the
10 Application. This is the same sharing mechanism that was proposed by Staff and
11 accepted by the Commission in Order No. 01-307 issued in Docket UM 1007 when Idaho
12 Power deferred excess net power supply expenses resulting from the 2001 energy crisis.

13 The key features of this methodology are:

- 14 • Actual net variable power expenses are compared to base net variable power
15 expenses to determine excess net variable power expenses.
- 16 • An amount of excess net variable power supply expense, up to \$31.38 million
17 on a system basis (equivalent to a 250 basis point return on equity), is not
18 deferred. The jurisdictional portion of amounts between \$31.38 million and
19 \$50.21 million above base net variable power supply expense (between 250
20 and 400 basis points ROE) is shared 50/50 between customers and
21 shareholders. Eighty percent (80%) of the jurisdictional portions of amounts
22 greater than \$50.21 million above base net variable power supply expenses
23 will be deferred and amortized as a part of Idaho Power's Oregon revenue
24 requirement.

- 1 • The calculated deferral recognizes the Oregon allocation factor to determine
2 the amount of deferral.
- 3 • The company may defer amounts allocated to Oregon on a monthly basis.
4 However, because the deferral mechanism is applied to annual amounts, the
5 monthly entries will be subject to a year-end true-up.

6 **Q. How will the base net variable power supply expense be determined?**

7 A. The Parties have agreed that the base expense level will be determined in the Company's
8 currently pending general rate case, Docket No. UE 167. As the Company noted in its
9 supplemental testimony in this docket, the question of the appropriate level for the
10 Company's normalized net power supply expense is at issue in UE 167. It is currently
11 anticipated that the Commission will issue its order in UE 167 establishing the
12 Company's normalized net power supply expense for Oregon ratemaking purposes in the
13 latter part of July.

14 **Q. Did the Parties reach agreement on the carrying charge to be applied to the
15 unamortized deferral balance?**

16 A. Yes. Interest will accrue on the deferred amount at the Company's authorized overall
17 rate of return, or at any interest rate that the OPUC decides should apply to deferred
18 account balances in the pending investigation docket, UM 1147.

19 **Q. Were there any issues that were not resolved by the Stipulation?**

20 A. No.

21 **Q. Do all of the Parties recommend the Commission accept their settlement agreement
22 as embodied in the Stipulation?**

23 A. Yes. The Parties believe that the settlement, viewed in its entirety, represents a
24 reasonable resolution of the issues and that allowing the Company to defer its excess net
25 power supply expenses incurred during the period between March 2, 2005, and February

1 28, 2006, in the manner described herein would be a fair, just, and reasonable result. As
2 a result, it is the joint recommendation of the Parties that their agreement, as embodied in
3 the Stipulation, be accepted by the Commission without change or condition.

4 **Q. Does this conclude your testimony?**

5 **A. Yes.**

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**BEFORE THE PUBLIC UTILITY COMMISSION
OF OREGON**

UM 1198

In the Matter of

IDAHO POWER COMPANY

Authorization to defer for future rate recovery
certain excess net power supply expenses.

STIPULATION

INTRODUCTION

1. The parties to this Stipulation are Idaho Power Company ("Idaho Power" or "Company"), Staff of the Public Utility Commission of Oregon ("Staff") and the Citizens' Utility Board ("CUB"), collectively referred to as "the Parties." The Parties are the only parties to the above-captioned docket.

2. By entering into this Stipulation, the Parties intend to resolve all issues arising from and relating to Idaho Power's Application for an Accounting Order Regarding Excess Net Power Expenses incurred for the twelve-month period commencing March 2, 2005, and ending February 28, 2006 (hereinafter referred to as "the Application").

BACKGROUND

3. Idaho Power filed its Application on March 2, 2005, supported by the testimony of Idaho Power witness Michael J. Youngblood. Idaho Power filed supplemental direct testimony of Mr. Youngblood on April 20, 2005.

4. CUB filed its notice of intervention on March 29, 2005.

5. On April 4, 2005, Administrative Law Judge Christina Smith presided over a pre-hearing conference at which the Parties agreed to a procedural schedule.

6. The Parties met for settlement discussions on May 13, 2005. As a result of those settlement negotiations, the Parties enter into this Stipulation.

STIPULATION

- 1
- 2 7. The Parties agree on the following, which underlie the Stipulation:
- 3 a. Idaho Power has experienced low streamflow conditions in recent years,
- 4 and the current year is forecasted to be extraordinarily low as well;
- 5 b. Under normal streamflow conditions more than half of Idaho Power's
- 6 energy is produced by its hydroelectric generating plants;
- 7 c. Extraordinarily low streamflow conditions result in the Company making
- 8 fewer wholesale market sales and greater wholesale market purchases than
- 9 under normal conditions;
- 10 d. As a result, Idaho Power's net variable power supply expenses are
- 11 expected to be significantly higher than those used in setting Idaho
- 12 Power's Oregon revenue requirement and Idaho Power's retail rates; and
- 13 e. Any deferral amount the Commission authorizes in this case will be
- 14 amortized over a multi-year period.

15 8. The Parties agree that Idaho Power should be allowed to defer excess net power

16 costs incurred from March 2, 2005, to February 28, 2006, using the same methodology approved

17 in OPUC Order No. 01-307. OPUC Order No. 01-307 authorized deferral of certain of Idaho

18 Power's net power supply expenses resulting from the 2001 energy crisis. The key features of

19 this methodology are as follows:

- 20 • Actual net variable power expenses are compared to base net variable
- 21 power expenses to quantify those eligible for deferral;
- 22 • Excess net variable power expenses in an amount equivalent to \$31.38
- 23 million on a system basis will not be deferred (\$31.38 million is
- 24 representative of 250 basis points as in accordance with Order No. 95-
- 25 1240 issued in Docket UE 92);
- 26

- 1 • Any excess net variable power expenses between amounts \$31.38 million
2 and \$50.21 million on a system basis will be shared 50-50 between
3 customers and shareholders (\$31.38 million to \$50.21 million is
4 representative of the 250 to 400 basis point band in accordance with Order
5 No. 95-1240 issued in Docket UE 92);
- 6 • Any excess net variable power expenses exceeding \$50.21 million on a
7 system basis will be shared with customers 80-20 (customers –
8 shareholders) (\$50.21 million is representative of 400 basis points in
9 accordance with Order No. 95-1240 issued in Docket UE 92);
- 10 • Amounts that are eligible for deferral under the mechanism will be
11 multiplied by Idaho Power's Oregon allocation factor, approximately 4.8
12 percent, to determine the amount of the deferral balance in Oregon; and
- 13 • The company may defer amounts allocated to Oregon on a monthly basis.
14 However, because the deferral mechanism is applied to annual amounts,
15 the monthly entries will be subject to a year-end true-up.

16 9. The Parties agree that the same sharing percentages and dollar values as shown
17 above will be used to calculate the amount of net variable power cost ("NVPC") that will be
18 deferred.

19 10. The Parties agree that the amount of the base net variable power costs will be the
20 net variable power cost level set by the Public Utility Commission of Oregon ("OPUC") in Idaho
21 Power's pending Oregon rate case, Docket No. UE 167.

22 11. Actual NVPC will be calculated as Fuel (FERC Account 501), plus Purchased
23 Power (FERC Account 555, less Cogen & SPP), minus Sales for Resale (FERC Account 447).
24 Actual NPVC will be adjusted to exclude the costs and benefits of FASB 133 mark-to-market
25 activity and merchant trading activity.
26

1 12. The Parties agree that the interest rate that will apply to the deferral balance will
2 be the Company's authorized rate of return, or any interest rate that the OPUC decides should
3 apply to deferred account balances in the pending investigation docket, UM 1147. Beginning at
4 the end of the deferral period, interest will accrue monthly on the unamortized portion of the
5 deferred account. In addition, at the end of the deferral period, an amount of interest will be
6 added to the account that equals the product of multiplying one-half the deferred account balance
7 at the end of the deferral period by the authorized interest rate.

8 13. The Parties agree that amounts in the deferred account will be subject to a
9 prudence review and earnings test as required by ORS 757.259 prior to being amortized in
10 customer rates.

11 14. The Parties agree that the deferral period is March 2, 2005, to February 28, 2006.

12 15. The Parties agree that the Stipulation represents a compromise in the position of
13 the Parties.

14 16. The Stipulation will be offered into the record of the above-captioned docket
15 pursuant to OAR 860-014-0085. The Parties agree to support the Stipulation throughout this
16 proceeding and any appeal, provide witnesses to sponsor the Stipulation at any hearing held in
17 the above-captioned docket, and recommend that the Commission issue an order adopting the
18 settlement contained herein.

19 17. The Parties have negotiated the Stipulation as an integrated document. If the
20 Commission rejects all or any material portion of the Stipulation, or conditions its approval upon
21 the imposition of additional material conditions, any party disadvantaged by such action shall
22 have the rights provided in OAR 860-014-0085 and shall be entitled to seek reconsideration of
23 the Commission's order.

24 18. By entering into this Stipulation, no party shall be deemed to have approved,
25 admitted, or consented to the facts, principles, methods, or theories employed by any other party
26

1 in arriving at the terms of the Stipulation. No party shall be deemed to have agreed that any part
2 of the Stipulation is appropriate for resolving issues arising in any other proceeding.

3 19. The Stipulation may be executed in counterparts and each signed counterpart shall
4 constitute an original document.

5 This Stipulation is entered into by each Party on the date entered below.

6 Dated this 1st day of July, 2005.

7 IDAHO POWER COMPANY

8
9 BY: /s/ Sarah K. Wallace
10 Lisa F. Rackner
11 Sarah K. Wallace
12 Barton L. Kline

13
14 STAFF OF THE OREGON PUBLIC UTILITY COMMISSION

15 BY: _____
16 Stephanie Andrus
17 Department of Justice

18
19 CITIZEN'S UTILITY BOARD

20 BY: _____
21 Bob Jenks
22 Lowrey Brown
23 Jason Eisdorfer
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25
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Calculation of Basis Point Equivalents

1	Deadband Dollar Amount	\$31,380,000
2	Basis Point Equivalent	250
3	Dollars per Basis Point (line 1 / line 2)	\$125,520
4	Excess NPSE Based on IPCO's NPSE Base	\$121,262,900
5	Basis Point Equivalent (line 4 / line 3)	966
6	Excess NPSE Based on Staff's NPSE Base	\$184,262,900
7	Basis Point Equivalent (line 6 / line 3)	1,468