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BEFORE THE PUBLIC UTILITY COMMISSION**

**OF OREGON**

UI 183

In the Matter of the Application of IDAHO	)	
POWER COMPANY for Approval of an	)	ORDER
Agreement for Electricity Supply and Management	)	
Services Between IDAHO POWER COMPANY	)	
and IDACORP ENERGY SOLUTIONS, LP, an	)	
Affiliated Entity.	)	
	)	

**DISPOSITION: APPLICATION APPROVED WITH CONDITIONS**

On December 29, 2000, Idaho Power Company (IPC) filed an application with the Public Utility Commission of Oregon (Commission) pursuant to ORS 757.495 and OAR 860-027-0040 requesting approval of its electricity supply and management services agreement with IDACORP Energy Solutions, LP, dba IDACORP Energy (IES), an Affiliated Interest.

Based on a review of the application and the Commission's records, the Commission finds that the application satisfies applicable statutes and administrative rules. At its Public Meeting on June 26, 2001, the Commission adopted Staff's recommendation to approve the application with certain conditions. Staff's recommendation is attached as Appendix A, and is incorporated by reference.

**OPINION**

**Jurisdiction**

ORS 757.005 defines a "public utility" as anyone providing heat, light, water or power service to the public in Oregon. The Company is a public utility subject to the Commission's jurisdiction.

**Affiliation**

An affiliated interest relationship exists under ORS 757.015.

**Applicable Law**

ORS 757.495 requires public utilities to seek approval of contracts with affiliated interests within 90 days after execution of the contract.

ORS 757.495(3) requires the Commission to approve the contract if the Commission finds that the contract is fair and reasonable and not contrary to the public interest. However, the Commission need not determine the reasonableness of all the financial aspects of the contract for ratemaking purposes. The Commission may reserve that issue for a subsequent proceeding.

**CONCLUSIONS**

1. The Company is a public utility subject to the jurisdiction of the Commission.
2. An affiliated interest relationship exists.
3. The agreement is fair, reasonable, and not contrary to the public interest.
4. The application should be granted, with conditions.

**ORDER**

IT IS ORDERED that the application of Idaho Power Company for authority to engage in an agreement for electricity supply and management services with IDACORP Energy Solutions, LP, doing business as IDACORP Energy, is granted, subject to the conditions stated in Appendix A.

Made, entered, and effective \_\_\_\_\_.

BY THE COMMISSION:

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**Vikie Bailey-Goggins**  
Commission Secretary

A party may request rehearing or reconsideration of this order pursuant to ORS 756.561. A party may appeal this order to a court pursuant to ORS 756.580.

**PUBLIC UTILITY COMMISSION OF OREGON  
STAFF REPORT  
PUBLIC MEETING DATE: JUNE 26, 2001**

**REGULAR AGENDA** X **CONSENT AGENDA**    **EFFECTIVE DATE**                   

**DATE:** June 21, 2001

**TO:** Phil Nyegaard through Marc Hellman and Mike Myers

**FROM:** Tom Riordan

**SUBJECT:** UI 183 – Idaho Power Company's Application for approval of an Agreement for Electricity Supply and Management Services Between Idaho Power Company (IPC) and IDACORP Energy Solutions, LP, dba IDACORP Energy (IES), an Affiliated Interest

**SUMMARY RECOMMENDATION:**

I recommend approval of the application for an agreement with the conditions noted in the detailed recommendation.

**DISCUSSION:**

Background:

IPC filed this application on December 29, 2000, pursuant to ORS 757.495 and OAR 860-027-0040. The purpose of this proposed transaction is to essentially have the energy supply and many related functions, historically performed by IPC, to then be performed by IES. Essentially, beginning in 1999, there has been an accounting separation of the operating transactions for IPC and the non-operating transactions for IES. The proposed agreement involves a structural separation for the operating (for regulated IPC) and the non-operating (for unregulated IES) power supply functions. This change will include marketing and trading activities, market analysis, handling of future wholesale contracts, and making risk management recommendations from IPC to IES, upon Commission approval.

As it has previously, IPC will continue to own and operate its electric generating equipment and transmission facilities (System Resources) to supply the electric load and service reliability requirements of its customers.

Both IPC and IES are wholly owned subsidiaries of IDACORP and therefore affiliated interests (AI) under ORS 757.015. This AI agreement has previously been resolved in Idaho by a stipulated agreement that included a \$2 million credit to its Power Cost Adjustment (PCA) for Idaho customers and approved on December 19, 2000 by the Idaho Public Utility Commission. To date, IPC has not offered a credit of any amount to Oregon customers. See Issues - Public Interest Compliance for further discussion on Staff's view of Oregon customers' entitlement to a credit.

Staff Comments:

Staff reviewed IPC's application and other relevant information the Company provided in response to Staff's requests. In addition, Staff met with Company representatives for discussions and made firsthand observations of IPC's trading floor and related fuel supply operations at IPC headquarters in Boise, ID. The Agreement for Electricity Supply and Management Services between the related parties reflects terms and conditions that are the result of a less-than-arms-length transaction between related parties. However, the terms and conditions appear necessary, fair, and reasonable. Staff, after its review of IPC's analysis of the proposed transaction, confirmed that on a system-wide basis, the total annual cost of the proposed services will initially be approximately \$3.6 million, with a maximum of \$5 million in IPC's next general rate case in Idaho. Based on the Idaho PUC decision, Oregon's initial share (approximately 4.41 percent) of the \$3.6 million annual cost of the proposed services is nearly \$159 thousand.

Issues

I have investigated the following issues:

1. Scope and Terms of Agreement
2. Transfer Pricing and Allocation Methods
3. Public Interest Compliance
4. Records Availability, Audit Provisions, and Reporting Requirements
5. Other Matters

Scope and Terms of Agreement – Based upon my analysis of the agreement, there appears to be no unusual or restrictive terms that would harm Oregon customers. Accordingly, I am not concerned about this issue.

Transfer Pricing and Allocation Methods – The Commission's transfer policy for goods and services purchased by a regulated electric utility from an affiliate shall be priced at the lower of cost or fair market rate. This policy likely has been met because IES is charging IPC a price for its electricity supply and management services based on IES's fully distributed cost that is currently less than the market rate or substantially less than what IPC's previous cost to provide the services on its own. The company's rate of return used in billing from IES to IPC is to be at the same rate authorized by the Commission in IPC's most recent rate case (UE 92). This is consistent with the Commission's affiliated interest (AI) transfer pricing policy. Proposed ordering condition No. 4 is included to ensure that IPC adheres to the Commission's policy.

Public Interest Compliance – IPC's customers are likely not harmed by this transaction, because the company is paying, with the provision of my proposed ordering condition No.4, a fair and reasonable price for electricity supply and management services. Therefore, the purchase price meets the lower of cost or fair market requirement of the Commission AI transfer pricing policy. Also, Staff noted that IPC agreed to provide upfront savings of \$2 million to its customers in Idaho, through its Power Cost Adjustment (PCA). Staff recommends that the Commission require IPC to record in its regulated books of account an

amount equal to Oregon customers' proportionate share of a credit similar to IPC's stipulation in Idaho. Staff estimates this would be approximately \$92,300 to Oregon customers. Any reduction of savings to customers or cost increase beyond the amounts noted above would necessitate a modification to the transfer price to meet the Commission's AI policy. This would then require IPC to comply with proposed ordering condition No. 3 to protect the public's interest.

Records Availability, Audit Provisions, and Reporting Requirements – Proposed ordering condition No. 1 provides the necessary records access to IES's relevant books and records.

Other Matters – For many years IPC regulated personnel performed all the duties and responsibilities of the power supply and related management functions. In other words, the knowledge, expertise, and reputation (the real value of this IPC operation) was developed and paid for by IPC's customers. Only very recently, as the result of significant changes in the electricity supply market related to competition, has IDACORP changed how IPC operates. As noted above, IPC's non-operating electricity supply transactions have been occurring and increasing substantially in volume. To meet these changes, comply with additional regulatory requirements, and limit risk to its customers, IPC has significantly increased its number of employees in this segment of its business. In the process of moving away from essentially an all-regulated transactions operation to a combination of regulated (operating) and increasing unregulated (non-operating) transactions operation, the substantial reliance on the historically developed knowledge, expertise, and reputation paid for by customers, has diminished. The facts clearly show that IES's non-operating electricity trading business owes its existence to IPC, the regulated utility. IES will gain on-going significant value from the information and knowledge it derives from managing the utility's power system in the WSCC.

Since IES will definitely benefit from IPC's historic knowledge, expertise, and reputation in electricity supply and management, as well as the on-going information and knowledge noted above, it should not do so without providing IPC's Oregon customers with fair compensation for this intangible asset value. Staff believes an appropriate way for the Commission to resolve this matter would be to require IPC to recognize a contingent liability in its financial statements in the amount of \$1 million, an Oregon only amount, for the purpose of subsequently providing its Oregon customers fair compensation for this valuable intangible asset. See Attachment A for Staff's calculation of its proposed \$1 million accounting treatment. Since this is a recommended amount for accounting purposes only, IPC will have a full opportunity to challenge the appropriateness of fair

compensation, as well as the amount of any fair compensation, in this or in the next rate proceeding or alternative form of regulation proceeding.

**CONCLUSIONS:**

Based on an investigation and review of this supplemental application, my conclusions are as follows:

1. Idaho Power Company is a regulated electric company subject to the jurisdiction of the Public Utility Commission of Oregon.
2. An affiliated interest relationship exists between Idaho Power Company and IDACORP Energy Solutions, LP, dba IDACORP Energy (IES).
3. The application appears fair and reasonable and not contrary to the public interest.

**DETAILED RECOMMENDATION:**

Staff recommends that the Commission approve Idaho Power Company 's (IPC) application for approval of an Agreement for Electricity Supply and Management Services Between Idaho Power Company (IPC) and IDACORP Energy Solutions, LP, dba IDACORP Energy (IES), an Affiliated Interest and include the following Commission conditions in this matter:

1. IPC shall provide the Commission access to all books of account, as well as all documents, data, and records of IPC and IES's affiliated interests that pertain to transactions between IPC and IES.
2. IPC shall notify the Commission in advance of any substantive changes to the agreement, including any material changes in any cost. Any changes to the terms which alter the intent and extent of activities under the agreement from those approved herein shall be submitted in an application for a supplemental order (or other appropriate format) in this docket.
3. For accounting purposes, the return component used in calculating IPC's cost of service received from IES shall be limited to IPC's current authorized overall rate of return of 8.95 percent.
4. IPC shall recognize a contingent liability of \$1 million in its financial statements regarding the value of the intangible asset that is: (1) associated with the transfer to IES of the historically developed knowledge, expertise, and reputation regarding its electricity supply and management paid for by IPC'S Oregon customers and (2) information and knowledge IES derives managing IPC's power system in the WSCC. Issues of: (1) whether IPC's Oregon customers are entitled to be compensated for the value of intangible assets discussed herein and (2) the valuation, if any, of such intangible assets will be addressed in IPC's next rate proceeding or alternative form of regulation proceeding.
5. IPC shall record a liability of \$92,300 in its regulated books of account regarding the value of the credit of Oregon customers' proportionate share of the benefit IPC

provided in its stipulated settlement of this affiliated interest agreement with the Idaho PUC. Also, IPC has agreed to flow through a \$92,300 annual benefit to its Oregon customers. The benefit will be distributed monthly and will begin once the IPC/IES agreement is fully implemented and continue until the next rate proceeding. The benefit will offset IPC's Oregon excess power supply expenses as long as that deferral is authorized. If needed, IPC will record additional months of benefit as a regulatory liability.

## ATTACHMENT A

## UI 183

STAFF CALCULATION OF IPC's CONTINGENT LIABILITY  
 PAYABLE TO OREGON CUSTOMERS FOR THE VALUE  
 OF THE TRANSFER TO IES OF IPC's INTANGIBLE  
 ASSET OF ACCESS TO INFORMATION, KNOWLEDGE,  
 EXPERTISE, AND REPUTATION REGARDING  
 POWER SYSTEM OPERATION AND MANAGEMENT

Staff proposes a one-time compensation obligation of \$1 million from IdaCorp's non-operating trading business (IES) to IPC's Oregon customers for the value of information and knowledge, expertise and reputation transferred from the utility to the non-operating trading business. This compensation is an estimate of the past, present, and future net value transferred. This estimate is based on Staff's review of 25 months of historic non-operating trading data provided by IPC. \$1 million represents less than 4/100<sup>th</sup> of 1% of a conservative estimate of the estimated dollar volume of trading activity IdaCorp's non-operating trading business will conduct through 2010, as allocated to Oregon. Although the dollar volumes were trending upward, Staff conservatively assumed no further growth of the non-operating trading business would occur. 4/100<sup>th</sup> of 1% is a small fee by any measure. For comparison purposes, Enron paid PGE's Oregon customers \$105 million for PGE's energy trading floor. Scaling that compensation for the size differential of the two regulated utility companies, and Oregon's allocated share of IPC (4.41 %), produces a comparable payment of \$2.5 million in the Enron-PGE case. This compares to the \$1 million Staff is recommending in this case.

However, these cases are not exactly the same, but have substantive differences. Enron was completely 'buying out' PGE from the energy trading floor. There was to be no physical or other connection between Enron's trading business and PGE in the future. In IPC's case, the IdaCorp non-operating affiliate (IES) will actually be doing much of IPC utility power operations work. Consequently, value will be flowing in both directions. Specifically, IPC, the utility, benefits from IES, the trading affiliates', broad exposure and knowledge of the power markets, and the affiliate benefits from knowing specifically how IPC's system in the WSCC will be operated. Staff believes, while benefits flow in both directions, the cumulative net value - past, present, and future - goes to IES. This



then warrants fair compensation in the form of a one-time \$1 million amount owed to Oregon customers.