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March 14, 2008

## VIA ELECTRONIC FILING

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

**Re: Docket No. UE 195**

Enclosed for filing in the above-referenced docket are an original and five copies of the Stipulation by the Parties and the Joint Direct Testimony of Ed Durrenberger, Michael J. Youngblood, and Lowrey Brown in support of the Stipulation.

A copy of this filing has been served on all parties to this proceeding as indicated on the attached certificate of service.

Very truly yours,

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

Wendy L. McIndoo

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 195 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.

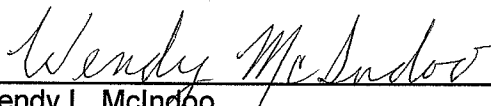
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DATED: March 14, 2008.

  
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Wendy L. McIndoo  
Legal Assistant

**BEFORE THE PUBLIC UTILITY COMMISSION  
OF OREGON**

**UE 195**

In The Matter of the Application of  
IDAHO POWER COMPANY for  
Authority to Implement a Power Cost  
Adjustment Mechanism for Electric  
Service to Customers in the State of  
Oregon

**STIPULATION**

**INTRODUCTION**

The parties to this Stipulation are Idaho Power Company ("Idaho Power" or the "Company"), Staff of the Public Utility Commission of Oregon ("Staff") and the Citizens' Utility Board of Oregon ("CUB"), (collectively, the "Parties"). The Parties represent all parties to this docket.

By entering into this Stipulation, the Parties intend to resolve all issues arising from and relating to Idaho Power's Application for Authority to Implement a Power Cost Adjustment Mechanism for Electric Service to Customers in the State of Oregon (hereinafter, the "Application").

**BACKGROUND**

Idaho Power filed its Application on August 17, 2007, supported by the testimony of Company witnesses, Michael J. Youngblood and Gregory W. Said.

CUB filed its Notice of Intervention on August 21, 2007.

On October 4, 2007, Administrative Law Judge Alan Arlow presided over a prehearing conference at which the Parties agreed to a procedural schedule.

On October 29, 2007, Idaho Power filed supplemental direct testimony.

The Parties met for settlement discussions on November 5, 2007. At the end of that conference, the Parties agreed to continue settlement discussions at an additional settlement

conference which was held on December 7, 2007, followed by a teleconference on December 12, 2007. A final settlement conference was held on March 10, 2008. As a result of these settlement negotiations, the Parties enter into this Stipulation.

### **STIPULATION**

1. The Parties agree that the Commission should adopt for Idaho Power an Annual Power Cost Update (or, alternatively "APCU") and a Power Cost Adjustment Mechanism (or, alternatively, "PCAM"). The APCU will be comprised of the following two components: An October Power Cost Update ("October Update") and March Power Cost Forecast ("March Forecast"). The Parties agree that the APCU and PCAM, as more particularly described below, will operate to allow Idaho Power to recover its power cost expenses in a fair and reasonable manner.

#### **Annual Power Cost Update**

2. The Annual Power Cost Update will constitute an automatic adjustment clause within the meaning of ORS 757.210(1).

#### **APCU-October Update**

3. In October of each year, the Company will file its October Update with an effective date of June 1 of the following year. This filing, which will be based on a test period of the following April through March (the "April through March Test Period" or "Test Period"), will reflect a normalized look, on a system wide basis, at the Company's net power supply expenses ("NPSE"). A normalized look means the October Update will incorporate data reflecting normal loads and average costs associated with multiple stream flow conditions as further detailed in paragraph 4.

4. The Parties agree that the following method will be used to calculate the October Update:

- a. The output of the Company's power supply model (AURORA or its successor) will be used to determine the net power supply average dispatch for normal loads and an average of stream flow conditions.<sup>1</sup>
- b. The wholesale electric prices for purchased power and surplus sales determined by the Company's power supply model will be replaced with an average forward electric price curve calculated from the previous 12 months (the previous October through the September prior to the October filing) of daily Mid-Columbia heavy load (Mid-C HL) and light load (Mid-C LL) forward price curves for the period starting in April immediately following the April through March Test Period. Forward prices will be adjusted for inflation back one year using the most recent Global Insight Producer Price Index for Electric Power. For example: the October 2007 filing of normal power supply expenses, which would use the Test Period April 2008 – March 2009, would incorporate the average of the daily price curves collected from October 2006 through September 2007 for the period April 2009 – March 2010. This average forward price curve would then be adjusted for inflation back one year to April 2008 – March 2009 (the Test Period) using the most recent Global Insight Producer Price Index for Electric Power.
- c. The volume of purchased power and surplus sales determined from the output of the Company's power supply model normalized run will be re-priced in the following manner:

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<sup>1</sup> Should the Company employ a model other than Aurora to calculate power costs, the Parties will examine the new model and the impact use of that model might have on the APCU and the PCAM described herein. The Parties agree to reserve the right to advocate for a different PCAM and APCU if the Company replaces Aurora with a different model.

- Purchased Power
  - Heavy Load – 3.9% above average Mid-C HL prices
  - Light Load – 7.1% above average Mid-C LL prices
- Surplus Sales
  - Heavy Load – 3.6% below average Mid-C HL prices
  - Light Load – 6.6% below average Mid-C LL prices

5. The October Update unit costs (“October Update Rate”)for power supply expense will be the Base Power Costs divided by Normalized Sales. Base Power Costs are the total power supply expense dollars calculated in accordance with paragraphs 4 and 8. Normalized Sales are described in paragraphs 6 and 7.

6. Normalized Sales for the Test Period are to be determined in accordance with the methodology employed in the most recently acknowledged Integrated Resource Plan (“IRP”). Normalized Sales are used to determine the rate, per MWh, required to recover normalized power supply expenses.

7. Normalized Load is the amount of energy in megawatt-hours required to be generated in order to meet customer demand on a normal basis, and is measured at the generation sources. The difference between Normalized Loads and Normalized Sales is the transmission and distribution losses between the generation source and the metered customer sales. Normalized Load for the Test Period is to be determined in accordance with the methodology employed in the most recently acknowledged IRP.

8. The Parties agree that the following variables will be updated for the October Update.

- a. Fuel prices and transportation costs;
- b. Wheeling expenses;
- c. Planned outages and forced outage rates;
- d. Heat rates;

- e. Forecast of Normalized Sales and Normalized Load as described in paragraph 6 and 7;
- f. Contracts for wholesale power and power purchases and sales;
- g. Forward price curve as defined in paragraph 4(b);
- h. PURPA contract expenses; and
- i. The Oregon state allocation factor.
- j. Updates to plant capabilities and acquisitions or changes to resources effective for the Test Period.

9. In the event that the Commission, in a future general rate case, adopts a different methodology for establishing the base rate component related to power supply expenses, the Parties agree that the October Update methodology should be adjusted to conform with the methodology approved in the general rate proceeding.

10. Prior to the initial October Update, by April 18, 2008, the Company will file a report showing that the Company is not earning more than its allowed rate of return. The showing will use a preliminary 2007 Results of Operations report with adjustments to reflect April 2008 through March 2009 normalized net power supply costs and the resulting revised tax expenses. The normalized net power supply costs are to be calculated using the methodology for the October Update described above, and then multiplied by 2007 Normalized Loads. The Parties reserve the right to recommend a rate reduction based on the results of this earnings review.

**APCU-March Forecast**

11. In March of each year the Company will file its March Forecast with an effective date of June 1 following the filing. The March Forecast filing will reflect the Company's estimate of expected power supply expenses for April through March Test Period, allowing for the most recent updates to the following variables:

- a. Fuel prices and transportation costs;

- b. Wheeling expenses;
- c. Planned outages and forced outage rates;
- d. Heat rates;
- e. Forecast of Normalized Sales and Normalized Loads, updated only for known significant changes since the October Annual Power Cost Update filing.
- f. Forecast Hydro generation from stream flow conditions using the most recent water supply forecast from the Northwest River Forecast Center in Portland, Oregon, and current reservoir levels;
- g. Contracts for wholesale power and power purchases and sales;
- h. Forward price curve as defined in paragraph 12
- i. PURPA contract expenses; and
- j. The Oregon state allocation factor.

12. The updated forward price curve used for market purchased power and surplus sales in paragraph 11(h) will be the most recent monthly forward price curve, as of the date of the filing, for the April through March Test Period, with heavy load and light load mid-Columbia prices modified in the following manner:

- Purchased Power
  - Heavy Load – 3.9% above average Mid-C HL prices
  - Light Load – 7.1% above average Mid-C LL prices
- Surplus Sales
  - Heavy Load – 3.6% below average Mid-C HL prices
  - Light Load – 6.6% below average Mid-C LL prices

13. A single water condition run of the power supply model for the April through March Test Period, with updated stream flow conditions and reservoir levels as described in paragraph 11(f), will be used to determine the March Forecast of net power supply expense.



14. The unit cost of the March Forecast will be the March Forecast Rate. The March Forecast Rate will be the Forecast Power Costs determined by the process described in paragraphs 11-12, divided by the Forecast Sales in megawatt-hours (\$/MWh) as described in paragraph 11(e).

15. The Sales Adjusted Forecast Power Cost Change is the March Forecast Rate less the October Update Rate, the result multiplied by the Forecast Sales.

16. The Forecast Change Allowed is 95% of the Sales Adjusted Forecast Power Cost Change .

17. The March Forecast Rate Adjustment is the Forecast Change Allowed divided by Forecast Sales.

18. The Combined Rate is the sum of the October Update Rate and the March Forecast Rate Adjustment. The Combined Rate is part of the Effective Rate Change taking place on June 1 for the June through May power cost year.

#### **Power Cost Adjustment Mechanism**

19. In February of each year, beginning in February of 2009, the Company will file the Annual Power Supply Expense True-up which will implement the Power Cost Adjustment Mechanism. This filing will calculate the deviation between actual net power supply expenses incurred for the preceding January through December period and the net power supply expenses recovered through the Combined Rate for that same period. For the purposes of the true-up, power costs are first calculated on a total system basis and then allocated to Oregon based on the allocation factor.

20. The Actual Unit Cost for net power supply expenses incurred will be the total Actual (system wide) Power Supply Expenses incurred divided by the Actual Sales. Actual Power Supply Expenses include FERC Accounts 501 (Fuel-Coal), 547 (Fuel-Gas), 555 (Purchased Power), and 447 (Sales for Resale).

21. The annual deviation between the Combined Rate and the Actual Unit Cost times the Annual Sales is multiplied by the current Oregon allocation factor in order to determine the Oregon Allocated Power Cost Deviation.

22. A power supply expense deadband (based upon the Company's authorized ROE from its last general rate case and using the rate base measured on an Oregon basis from the most recent Oregon Results of Operations report) is applied to the Oregon Allocated Power Cost Deviation as follows:

a. A positive deviation (actual net power supply expenses greater than those recovered through the Combined Rate) constitutes an excess power supply expense. This expense is first reduced by a deadband that is the dollar equivalent of 250 basis points of ROE (Oregon basis). If, after applying the deadband, there is still excess power supply cost, 90% of that amount will be deferred for possible recovery by the Company through the mechanism described below.

b. A negative deviation (actual net power supply expense less than those recovered through the Combined Rate) is a power supply expense savings. This savings is reduced by a deadband that is the dollar equivalent of 125 basis points of ROE (based upon the Company's authorized ROE from its last general rate case and using the rate base measured on an Oregon basis from the most recent Oregon Results of Operations report). If, after applying the deadband, there is still remaining power supply savings, 90% of the savings amount will be deferred for possible refunding by the Company to the customers through the mechanism described below.

23. Subject to the Earnings Test below, eligible power supply expense deviations calculated by the process described above (after deadband and sharing) will be added to the

Annual Power Supply Expense True-Up Balancing Account (True-Up Balancing Account) at the end of each 12-month period ending December, along with 50 percent of the annual interest calculated at the company's authorized cost of capital. Interest will accrue on the balancing account at the Commission-authorized rate for deferred accounts.

24. The Annual Power Expense True-Up is a unit cost rate (\$/MWh), calculated as the excess power supply costs or savings in the Annual Power Supply Expense True-Up Balancing Account, divided by the Forecast Sales for the upcoming Test Period, divided by the Oregon allocation factor.

#### **Earnings Test**

25. Before any amounts of excess power supply true-ups are approved for inclusion in the Annual Power Supply Expense True-Up Balancing Account for subsequent recovery or refund in rates, the Commission will apply an earnings test. If Idaho Power's earnings are within +/- 100 basis points of its authorized ROE, as measured from an Oregon Results of Operations report for the twelve months ended December 31 of the previous year, excluding amounts that would be added to the Annual Power Supply Expense True-Up Balancing Account, no true-up amounts will be added to the Balancing Account for that year. If the Company's current earnings are more than 100 basis points below its authorized ROE (Oregon basis), the Company will be allowed to add the excess power supply true-up costs to the Annual Power Supply Expense True-Up Balancing Account, after application of the power supply expense deadband and 90%-10% sharing (customers bear 90 percent and the Company bears 10 percent), up to an earnings level that is 100 basis points less than its authorized ROE. If the Company's earnings are more than 100 basis points above its authorized ROE (Oregon basis), it will be required to include the amount in the Annual Power Supply Expense True-Up Balancing Account as a credit, after application of the deadband and 90%-10% sharing, down to the authorized ROE plus 100 basis points threshold.

### **Effective Rate Change**

26. The Effective Rate Change equals the Combined Rate (the sum of the updated October Update Rate, filed for in October, and the March Forecast Rate Adjustment, filed for in March) plus or minus the Annual Power Supply Expense True-up Rate (subject to the provisions of the Earnings Test and Oregon law regarding deferrals).

### **PURPA Expenses**

27. All PURPA related power supply expenses will be treated the same as all other non-PURPA power supply expenses.

### **Terms of Agreement**

28. The Stipulation is offered into the record of this docket pursuant to OAR 860-014-0085. The Parties agree to support the Stipulation throughout this proceeding and any appeal, to provide witnesses to sponsor the Stipulation at any hearing held in this docket and recommend that the Commission issue an order adopting the settlement contained herein.

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

30. By entering into this Stipulation, no Party shall be deemed to have approved, admitted to, or consented to the facts, principles, methods or theories employed by any other Party in arriving at the terms of the Stipulation.


31. This Stipulation may be executed in counterparts and each signed counterparty shall constitute an original document.

32. Each Party enters into the Stipulation on the date below.

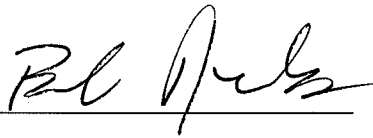
STAFF

By: \_\_\_\_\_

IDAHO POWER COMPANY

By: 

CITIZENS' UTILITY BOARD

By: 

Dated: March 14, 2008

32. Each Party enters into the Stipulation on the date below.

STAFF

IDAHO POWER COMPANY

By: Bonnie B. Jatom  
3-14-08

By: \_\_\_\_\_

CITIZENS' UTILITY BOARD

By: \_\_\_\_\_

Dated: March 14, 2008