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PacifiCorp Idaho Industrial Customers

November 18, 2011

Co-Chair Representative George Eskridge
Co-Chair Senator Curt McKenzie
Energy, Environment & Technology Interim Committee
Idaho Legislature

Subject: The Need for Affordable Electric Service for PacifiCorp's Large Electric Customers in Idaho

In 2010 PacifiCorp dba Rocky Mountain Power filed a general ratecase with the Idaho Public Utilities Commission requesting approximately a 15% rate increase for industrial, large load and irrigation customers in Idaho. As a result of this filing, a number of industrial and irrigation customers of Rocky Mountain Power intervened at the PUC and fought this dramatic 2010 rate increase.

The same thing happened again in 2011 - double digit rate increases proposed for industrial (11%), irrigation (20%) and large power users (Monsanto = 19%; Agrium = 20%). In response, a group of industrial, large-use and irrigation customers again opposed this extraordinary request for a rate increase by Rocky Mountain Power at the Idaho PUC. The 2011 rate case resulted in a two year "settlement" where in each of the next two years Rocky Mountain Power will increase base electric rates for industrial, large institutional users and irrigation pumpers by approximately 6.7 % to 8.9%.

2011 also saw a Rocky Mountain Power "automatic" rate increase of approximately 3% related to an increase in "power supply costs." In 2010, this automatic rate increase was closer to 4%. These "automatic" rate increases are in addition to "base rate" increases. Rocky Mountain Power has told its large power users to expect "automatic" cost adjustments of 3 to 5% every year, in addition to "base rate" increases of 7.5% to 15%, for the foreseeable future. That future spells disaster for industrial and large energy users in eastern Idaho.

The current system of utility regulation in Idaho is generally designed to reward investor-owned utilities – like Warren Buffett's Berkshire Hathaway (the upstream owner of Rocky Mountain Power and PacifiCorp) – for investment in electric facilities, regardless of the state of the economy. In Idaho, Rocky Mountain Power's authorized return on equity is 9.9%. This opportunity to earn a 9.9% return applies to all electrical facilities that are prudently built and used to provide electric service to Idaho customers. Unfortunately, the same return on equity is, at times, paid by Idaho customer's to Rocky Mountain Power's shareholder for electrical facilities that are more or larger than what is really needed in times of economic hardship, are "gold plated" when they are built, or are able to serve more than just one purpose.

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As a case in point, PacifiCorp is planning a gigantic six state electrical transmission system – the Energy Gateway Project. When PacifiCorp first announced Energy Gateway, it was touted as a "superhighway' to transmit power from the Rockies to west coast energy markets.[1] Back in 2007 and 2008, PacifiCorp anticipated it would cost in excess of $6 billion and have a significant number of third-party subscribers, (i.e., merchant generators in Wyoming, Idaho or Utah and/or west coast purchasing utilities) that, along with PacifiCorp's existing retail customers, would justify the size and expense of Energy Gateway.

With the 2008 recession, the merchant generators and utilities abandoned their subscriptions to Energy Gateway. PacifiCorp has since changed its cost recovery strategy for Energy Gateway, and is now proposing before the six state PUCs in which it does business, that its retail customers pay 100% of the costs for the line. To the extent PacifiCorp is unsuccessful in assigning all of Energy Gateway costs to its retail customers, it faces the same investment and marketing risk as other merchant transmission developers currently face, in attempting to build similar transmission lines through Idaho.

When completed, Energy Gateway will undeniably provide better electric stability throughout its six state region and in Idaho. It will also essentially allow for the unrestricted flow of mostly renewable energy from the Rockies to California, with PacifiCorp as the "toll road" owner. The "supersizing" of Energy Gateway is far in excess of what would otherwise be needed for PacifiCorp and Rocky Mountain Power to provide safe, reliable electric service to its customers in Wyoming, Utah, Idaho, Washington, Oregon and California. Costs of the line are also "supersized."[2] Yet, PacifiCorp is asking all 6 of its state regulators to ratebase 100% of cost of Energy Gateway. In effect, ratepayers will pay the cost for building this 8 lane electric freeway, when a 2 or a 4 lane highway will also provide "safe, adequate and reliable" electric service in Idaho.

The draft 2012 Idaho Energy Plan states that Idaho's energy future is centered on three pillars, the first being to secure a "stable, <u>cost-effective</u> supply of electricity." Energy Plan objective Number 2 is to "Maintain Idaho's <u>low-cost</u> energy supply and ensure access to affordable energy." Yet, the Energy Gateway transmission project is not rational or proportional to the needs of PacifiCorp's Idaho customers, is not "cost effective" and is the antithesis of "ensuring access to affordable energy." Annual ten percent rate increases in eastern Idaho do not help "maintain" Idaho's low cost energy supply.

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[1] According to PacifiCorp's 2008 application at FERC, the line "will deliver up to 3,000 MW of capacity from location-constrained renewable resources in Wyoming to distant load centers." 125 FERC ¶ 61,076

[2] For example, the first portion of Energy Gateway Transmission Line (the Gateway Central segment) cost over $6.1 million per mile, when another very recent similar western project cost $2.2 million per mile, and a recent study of approximately 40 transmission projects in the western U S had an investment cost of between $2 – 3 million per mile.

For the reasons outlined above, the PacifiCorp Idaho Industrial Customers request a new "Action" under the "Transmission" recommendations of the draft Idaho Energy Plan, shown as Attachment to this letter.

Sincerely,

/s/ Ron Williams

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cc: Jim Duke, Idahoan Foods, PIIC President
Tim Buller, Agrium Inc., PIIC Vice President

Attachment 1

Recommended Action Item Regarding Electrical Transmission

The PUC should insure that Idaho retail electric customers pay only for the portion of the interstate electrical system being built by Idaho investor owned utilities which are necessary to provide Idaho electric customers with safe, reliable and stable electrical supply. Cost recovery for excess transmission line capacity, to be used primarily by merchant transmission line customers, should not be recovered, in the first instance, from Idaho retail customers.

Idaho's investor owned utilities are currently embarked on investing in a number of long-distance transmission projects. Some of the projects, or portions thereof, will bring lower cost energy to Idaho consumers. Other projects, or portions thereof, will significantly enhance the ability of Idaho's investor-owned utilities to transfer electricity through the state, on behalf of others, for a fee. The PUC and Idaho's investor owned utilities should help insure that Idaho maintains its low cost supply of electricity by allocating to Idaho's retail customers their reasonable, proportional, share of the cost of new interstate transmission systems. In addition, to the extent an interstate transmission line is sized materially above that which is necessary to adequately serve Idaho retail electric customers, that proportional share should be allocated to the merchant users of that line, so that Idaho's retail customers are not the "guarantors" of 100% of the cost recovery of such a dual-purpose line.