DECISION MEMORANDUM

TO: **COMMISSIONER KJELLANDER**
COMMISSIONER REDFORD
COMMISSIONER SMITH
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: **KARL T. KLEIN**
DEPUTY ATTORNEY GENERAL

DATE: **JULY 30, 2014**

SUBJECT: **COMMISSION INQUIRY INTO IDAHO POWER'S PCA TRUE-UP COMPONENT AND DEFERRAL BALANCE, CASE NO. IPC-E-14-16**

On May 30, 2014, the Commission issued Order No. 33049 in Idaho Power Company's 2014 Power Cost Adjustment (PCA) Case, IPC-E-14-05. The Commission's Order approved the Company's determination of the PCA's forecast and reconciliation components. But the Commission acknowledged Staff's concern about how the Company appeared to calculate the PCA's true-up component:

> Staff's concern about the true-up is well-taken. The PCA methodology—including the true-up—is designed to "ensure the amount recovered is no more or less than the actual power costs paid by the Company." Order No. 30828, Case No. IPC-E-09-11. Staff raises serious doubts about whether the Company applies the true-up in a way that achieves this result. Staff believes the Company's application of the true-up introduces a line-loss bias that leads the Company to inflate the [Net Power Supply Expense] true-up revenue it must collect by $14.2 million. If Staff is correct, then the Company's deferral balance should be decreased by $14.2 million (or $5.9 million, if the Company is correct that Staff miscalculated its adjustment). However, we believe the abbreviated time allotted for the consideration of a PCA case constrains the parties' ability to more thoroughly vet this issue and Staff's proposed adjustment. Accordingly, we find it is reasonable to defer our decision on Staff's proposed adjustment so a new docket can be opened in which the parties can hold a workshop to evaluate the Company's application of the true-up and whether a deferral balance adjustment is appropriate. The parties would then report their findings to the Commission, and the Commission would adjust the PCA deferral balance as warranted for inclusion in next year's PCA.

Id. The Commission thus ordered: "that a separate docket be opened to allow Commission Staff, the Company, and other interested persons to hold a workshop to further evaluate the Company's application of the true-up and whether a deferral balance adjustment is appropriate." *Id.* at 13.

On July 1, 2014, the Commission opened this docket, set an intervention deadline, and scheduled a July 30, 2014 public workshop for the Company, Staff, and interested persons to further explore these issues. The Commission said that after the workshop it would schedule further proceedings as needed. Order No. 33067.

The Industrial Customers of Idaho Power intervened in the case. The workshop then occurred as scheduled. Besides the parties, the Snake River Alliance and Idaho Conservation League attended the workshop.

STAFF RECOMMENDATION

At the workshop, the Company walked the participants through its base rate and load-change adjustment rate calculations for the PCA deferral period from April 2013 through March 2014. A copy of the explanation that the Company distributed at the workshop is attached. The Company's detailed explanation alleviates Staff's concern about how the Company applied the true-up component in the last PCA case. Staff thus withdraws its previously recommended adjustment to the PCA deferral balance, and recommends that the Commission close this docket. After this case is closed, Staff will informally meet with the Company and other interested persons to discuss refining the PCA mechanism to make it more accurate and easy to understand. All parties concur with this approach.

COMMISSION DECISION

Would the Commission like to close this docket?

Karl Klein
Deputy Attorney General

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Idaho Power Company
Base Rate and LCAR Calculations
Effective for the PCA Deferral Period April 2013 through March 2014

Base Rate Net Power Supply Expenses		Load Change Adjustment Rate	
2011 GENERAL RATE CASE			
Approved Idaho Jurisdictional Net Power Supply Expenses	$198,167,039	Approved LCAR Numerator	$269,169,757
Idaho 2011 General Rate Case Test Year Sales (MWh)	13,498,892	Idaho 2011 General Rate Case Test Year Loads (MWh)	14,822,063
Average NPSE Embedded in Base Rates - 2011 GRC ($/MWh)	$14.68	Approved LCAR - 2011 GRC ($/MWh)	$18.16
LANGLEY GULCH CASE			
Approved Idaho Jurisdictional NPSE Change **(DECREMENT ONLY)**[1]	($7,732,030)	Approved Idaho Jurisdictional NPSE Change **(DECREMENT ONLY)**[1]	($7,732,030)
Idaho June 2012 - May 2013 Langley Gulch Case Test Year Sales (MWh)	13,172,432	Idaho 2011 General Rate Case Test Year Loads (MWh)[2]	14,822,063
Incremental Base NPSE Authorized in Langley Gulch Case ($/MWh)	($0.59)	Incremental LCAR Impact Approved in Langley Gulch Case ($/MWh)	($0.52)
COMBINED RATES IN EFFECT APRIL 2013 THROUGH MARCH 2014			
$/MWh Base Rate Recovery Approved in 2011 General Rate Case	$14.68	LCAR Approved in 2011 General Rate Case	$18.16
$/MWh Base Rate Recovery Approved in Langley Gulch Case	($0.59)	Incremental LCAR Impact Approved in Langley Gulch Case	($0.52)
Total $/MWh NPSE Embedded in April 2013 through March 2014 Base Rates	$14.09	Total LCAR ($/MWh) Effective April 2013 through March 2014	$17.64

(1) Only the $7.7 million Langley Gulch NPSE reduction was included in rates using the 2012/13 Langley Gulch Test Year sales denominator. Rates were not recalculated by dividing total revenue requirement by the 2012/13 Test Year sales.

(2) To maintain complete consistency with base rate recovery, a second LCAR would have been required in the Langley Gulch Case to reflect the different sales denominator used to include the $7.7 million NPSE reduction in rates. However, it was decided that the use of a single rate utilizing the 2011 Test Year load denominator was superior to a dual rate option for two reasons:

1. The majority of NPSE embedded in base rates ($198 million) utilized the 2011 Test Year sales denominator, while just the $7.7 million Langley Gulch NPSE reduction was put into rates using the 2012/13 Test Year sales denominator.
2. The application of a second LCAR would result in undue additional complexity within the PCA deferral report.