

DECISION MEMORANDUM

TO: COMMISSIONER KJELLANDER
COMMISSIONER REDFORD
COMMISSIONER RAPER
COMMISSION SECRETARY
COMMISSION STAFF
LEGAL

FROM: NEIL PRICE

DATE: JUNE 12, 2015

SUBJECT: ROCKY MOUNTAIN POWER'S APPLICATION TO MODIFY THE ENERGY COST ADJUSTMENT MECHANISM AND INCREASE RATES; CASE NO. PAC-E-15-09.

PROCEDURAL BACKGROUND

On May 27, 2015, Rocky Mountain Power, a division of PacifiCorp ("Rocky Mountain" or "Company"), submitted an Application seeking a Commission order authorizing the Company to: 1) increase rates by \$10.2 million, or 3.9 percent on average, effective January 1, 2016, as summarized in the Electric Service Schedules attached to the Application; and 2) modify the Energy Cost Adjustment Mechanism ("ECAM"). Rocky Mountain requests that the Commission process its Application through Modified Procedure.

On June 11, 2015, the Commission issued an Order granting Petitions to Intervene filed by Monsanto Company ("Monsanto") and PacifiCorp Idaho Industrial Customers ("PIIC"). *See* Order No. 33321.

APPLICATION

Rocky Mountain provides retail electric service to approximately 75,435 customers in the state of Idaho and is subject to the jurisdiction of the Commission.

I. Base NPC Update

Rocky Mountain begins its Application by recounting that base NPC was established in a general rate case in 2011, based on 2010 loads. According to the Company, all of the NPC components have changed increasing NPC by \$129 million. Because these increased NPC are

not reflected in base rates, Rocky Mountain believes that a significant portion of Idaho's allocation of NPC is being recovered through the ECAM.

Rocky Mountain asserts that it is more appropriate for these ongoing and permanent power costs to be recovered through base rates rather than through the ECAM. Therefore, the Company proposes to update the level of base NPC consistent with the level reported in the Annual Results. The Company's Annual Results demonstrate that base NPC are \$1,514 million, or \$93.8 million on an Idaho-allocated basis, compared to \$1,385 million, total Company NPC, or \$87.6 million on an Idaho-allocated basis, in its 2011 general rate case. By updating base NPC and allowing that level of expense to be included in base rates beginning January 1, 2016, Rocky Mountain argues that the ECAM will be better aligned to track annual fluctuations in NPC rather than long-term recovery of NPC currently being collected through the annual ECAM surcharges.

The Company states that its proposed base rate increase of approximately \$10.2 million is derived from: (a) \$2.8 million associated with updating base NPC from \$1,385 million to \$1,514 million, total Company, or \$93.8 million on an Idaho-allocated basis; (b) \$6.5 million for renewable energy credits ("RECs"); (c) \$0.2 million for renewable energy production tax credits ("PTCs"); and (d) \$0.7 million for the incremental amortization of the Deer Creek Mine unrecovered investment (depreciation and depletion expense), as requested in the Company's application in Case No. PAC-E-14-10 ("Deer Creek Mine Case").

II. Proposed Modifications to the ECAM

Rocky Mountain proposes to make the following modifications to the current ECAM: 1) 90/10 percent sharing band should be eliminated, allowing for 100 percent recovery of prudently incurred NPC; 2) The calculation method should be based on retail sales at meter, eliminating the need for Staff's base rate over-collection adjustment; 3) The LCAR should be eliminated; 4) DSM costs and SO2 sales should no longer be tracked in the ECAM; 5) Renewable energy production tax credits ("PTCs") should be included in the ECAM and treated similar to NPC; 6) If the amortization of the Deer Creek Mine unrecovered investment (depreciation and depletion expense) is not included in base rates a temporary adder should be included in the ECAM until it is included in base rates; 7) The deferral period should be changed to correspond with the calendar year and the filing date should be changed to April 1 with rates effective June 1.

Rocky Mountain proposes to eliminate the 90/10 sharing band in the ECAM because it already proactively manages NPC. The Company believes that the sharing band is not an appropriate incentive because the Company has little to no control over the volatility and unpredictable nature of these costs. The Company believes that it has historically been penalized by the sharing band. The Company claims that sharing bands and dead bands have been eliminated in almost all other states.

The Company proposes to add the incremental Deer Creek Mine depreciation expense that was collected through the ECAM into base rates with no sharing. This proposal is consistent with the Company's request in the Deer Creek Mine Case (PAC-E-14-10). It would allow the Company to continue to collect depreciation expense related to the Deer Creek Mine through its remaining depreciable life.

Rocky Mountain argues that its resource mix has changed since the approval of the ECAM. The Company has become increasingly reliant on short term market purchases due to more intermittent energy from the addition of QFs on the Company's system and other owned and contracted generation that serve its load. Due to requirements under the Public Utility Regulatory Policies Act of 1978, the Company has added additional intermittent energy from the purchase of energy from Qualifying Facilities, exposing the Company to the market and increased NPC volatility. Intermittent energy is highly dependent on the weather, which is entirely out of the Company's control, making NPC more unpredictable.

The Company believes that its new hedging policy also supports modifications to the ECAM. The Company updated its hedging policy by incorporating guidelines that allow a reasonable percentage of natural gas and power requirements to remain open to short-term market price exposure and for operational flexibility.

Rocky Mountain proposes to change the ECAM's differential calculation method so that it is based on retail sales at the meter, eliminating the need for the method developed by Staff, known as the base rate over-collection adjustment. The Company also proposes to eliminate tracking the LCAR, SO₂ sales, irrigation load control and DSM costs and from the ECAM. The LCAR should be eliminated because it is asymmetrical in that it only considers changes in loads (or sales going forward) but ignores changes in the actual underlying costs. Irrigation load control and DSM costs were included in the ECAM as stipulated in the 2011 GRC due to the uncertainty of the jurisdictional treatment of the irrigation load control program by the Multi-State Protocol ("MSP") committee. MSP now dictates that DSM costs are situs assigned, thus

eliminating the need to track these cost in the ECAM. The Company says that it has modified the DSM program to make it more cost effective and aligned with the benefits received. The DSM program cost should not be part of the ECAM.

Rocky Mountain believes that revenues from SO2 sales have become immaterial and irrelevant, citing that the 2015 ECAM Idaho SO2 sales amounted to a \$71 credit to customers. The Company proposes tracking renewable energy production tax credits in the ECAM because the credits are directly tied to the energy production of the qualifying renewable generation facilities, which can vary significantly from year to year.

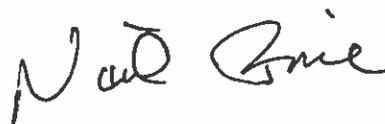
The Company proposes to change the ECAM deferral period to coincide with the calendar year (January to December) opposed to the current December through November deferral period. The Company believes this change will make the ECAM easier to audit and align the deferral period with that used in all the other PacifiCorp jurisdictions. The Company wishes to move the filing date from February 1 to April 1, with rates effective June 1 rather than April 1.

III. Miscellaneous

Rocky Mountain states that it has provided notice of its Application to its customers through the issuance of a press release sent to local media organizations and bill inserts included in customer bills beginning in June. Copies of the Application were provided to many of the Company's major customer representatives. Copies of the Application will also be made available for review at the Company's local offices in its Idaho service territory and at the Commission's office or on its homepage. In accordance with Rule 121(e), (f), and (g), Rocky Mountain represents that the Application, testimony, exhibits and work papers support the costs the Company seeks to recover.

COMMISSION DECISION

Does the Commission wish to issue a Notice of Application?



Neil Price