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IDAHO PUBLIC
UTILITIES COMMISSION

Attorneys for the Industrial Customers of Idaho Power

BEFORE THE

IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE COMMISSION'S)
INQUIRY INTO LOAD GROWTH) CASE NO. GNR-E-10-03
ADJUSTMENTS THAT ARE PART OF THE)
POWER COST ADJUSTMENT) OPENING COMMENTS
MECHANISMS) OF THE INDUSTRIAL CUSTOMERS
OF IDAHO POWER

COMES NOW, the Industrial Customers of Idaho Power ("ICIP"), and hereby submits its Opening Comments in this docket on Avista's proposal, which would remove fixed costs from a utility's load growth adjustment mechanism ("LGAR") and rename the mechanism the load change adjustment mechanism.¹ Because Avista's proposal will operate the LGAR mechanism in a way for which it was never intended and in a manner that would allow the utility to recover non-existent expenses, ICIP respectfully requests that the Commission reject Avista's proposal.

¹ Avista and Idaho Power have Commission approved Power Cost Adjustment ("PCA") mechanisms. Rocky Mountain Power has a Commission approved Energy Cost Adjustment Mechanism ("ECAM"). Each utility employs some form of load growth adjustment mechanism. For simplicity, these comments will refer to those mechanisms as the "PCA and "LGAR," even though the individual utilities sometimes refer to their individual mechanism by a different name.

ICIP requests that the Commission instead determine that the LGAR should be calculated based on the marginal cost of energy – not the embedded cost – and that the LGAR (load growth adjustment mechanism) only operates in times when loads are growing to avoid any decoupling effect.

I. BACKGROUND

A. History of the PCA and LGAR

This case should be considered in the context of the history of the PCA and the LGAR. In 1981, the Commission approved setting power supply costs based on normalized conditions from multiple hydro years. *See* Case No. U-1006-185. Ensuing severe droughts caused the Company to file for rate surcharges. The Commission found this method of dealing with volatile hydro conditions to be undesirable, and developed the PCA. The Commission ultimately determined “that the current system of normalizing power supply costs and granting Idaho Power a surcharge during drought years is defective because it is unpredictable and ratepayers do not receive any rate reduction during high water years.” Order No. 24806, at pp. 4-5. The PCA “addresses this concern and will produce consumer benefit in the form of lower rates during years of favorable stream flows.” *Id.* at p. 5. Thus, the PCA’s purpose was to create a system where both Idaho Power and its customers would share in the costs and benefits of changes in power supply costs, caused primarily by variations in stream flows, that occur between general rate filings. Nevertheless, in approving the PCA, the Commission stated that it continued “to believe that normalization is a valuable ratemaking methodology for other types of expenses and revenues. Nothing in this Order should be construed to the contrary.” *Id.*

The Commission implemented LGAR to prevent the Company from double-recovering

certain costs under the PCA. *Id.* at p. 20. The load growth adjustment factor is used to adjust for power supply costs that the Company has already recovered from customers through rates.

Although new loads add to Idaho Power's power supply costs over and above those established through rate case normalization procedures, these new loads pay Idaho Power's rates for the power they receive. Allowing the Company to automatically recover in the PCA the full costs of serving new load would therefore result in an over-recovery by the Company. *See id.* (stating "Idaho Power's proposed PCA allows it to double recover fuel costs associated with load growth which, essentially, offsets the cost of constructing additional plant"). In other words, if the PCA were not adjusted to take into account the revenues the Company receives from new customers or increased load, the Company would again receive them automatically in the PCA as higher power supply costs. "All parties agree that the principal purpose of PCA load growth adjustment rate is to eliminate the potential for double recovery of power supply expenses. Idaho Power believes this should be the sole purpose of the load growth adjustment." Rebuttal Testimony of Gregory Said, Idaho Power Company, IPC-E-06-08, at p. 27 (October 20, 2006).

The method of calculation of the LGAR has undergone significant changes over the past few years. In 2008, when the parties settled Idaho Power's general rate case (Case No. IPC-E-07-08), the Commission approved the Stipulation in that case, and stated:

The Parties agree to make a good faith effort to develop a mechanism to adjust or replace the current Load Growth Adjustment Rate (LGAR) to address costs of serving load growth between rate cases. As an interim resolution, the LGAR for PCA year 2008 (April 2008 - March 2009) will be \$62.79 per MWh applied to one-half of the load growth occurring during each month within the PCA year.

Stipulation, IPC-E-07-08, at p. 4, (Jan. 23, 2008). This approach deviated from prior method of

using the Company's full marginal cost to determine the LGAR, applying it to one-half the load or essentially one-half full marginal cost.

The next change in the methodology moved the calculation of the LGAR to include three different components – a return component, an expense component, and a revenue component of the production-related rate base. The Commission's order approving the stipulation implementing that change stated:

The current LGAR is calculated by multiplying the marginal cost of serving new load by one-half of the difference between current load and the load established in the Company's last rate case (Case No. IPC- 07-08). The current rate is effectively \$31.39 per MWh. The proposed new methodology recognizes that the Company incurs additional power supply costs to serve new load between rate cases and has no opportunity to collect those costs. By using three components - a return component, an expense component, and a revenue component of the production-related rate base - the new calculation recognizes the generation related revenue that is collected from new load through rates. The proposed LGAR using the Stipulation's formula is \$28.14 per MWh.

Order No. 30715, at p. 2.

B. Recent Use of the LGAR When Loads Are Declining

Although the load growth adjustment was obviously established to deal with double recovery in rates as the power system experienced load growth, all three utilities are now experiencing load declines due to worst economic downturn since the Great Depression and increased conservation efforts. Each utility requested the continued use of their respective LGAR mechanisms in their 2010 PCA despite declining loads. This use of a *load growth* mechanism in the face of *declining loads* is counterintuitive and yielded unintended consequences.

In the recent PacifiCorp power cost adjustment case (Case No. PAC-E-10-01), the

Commission recognized that a load growth adjustment in the face of declining loads can lead to over recovery by a utility. The Commission stated that operation of the load growth adjustment mechanism “reveals an unintended consequence in periods of declining retail load.” Order No. 31033, at p. 12. It “appears to operate much the same as a decoupling mechanism reimbursing the Company for lost revenue for reductions in customer usage (sales).” *Id.* Specifically regarding PacifiCorp’s filing, “[s]eventy-five percent of the ECAM deferral in this case is related to declining load. The [LGAR] adds power supply costs to make up for the generation portion of lost sales.” *Id.* It thus “looks less like a power cost adjustment and more like a vehicle to restore lost revenue due to decreases in customer usage. We find the result that is presented by use of an ECAM containing an LGAR during periods of declining load growth is a problem that may also occur in the Power Cost Adjustment (PCA) mechanisms of Idaho Power and Avista.” *Id.* This creates “benefits differently than [the Commission] anticipated.” *Id.*

In short, “[f]or the [load growth adjustment mechanism] to act as a decoupling mechanism was unintended.” *Id.* The Commission concluded that if PacifiCorp “desires a decoupling mechanism it should request and justify one in a separate filing.” *Id.* The Commission therefore directed the Commission Staff to conduct workshops to investigate the issue for the three utilities. *Id.*

The same decoupling effect recognized by the Commission in the PacifiCorp case was at issue in Idaho Power’s and Avista’s PCA cases in 2010. Notably, Idaho Power already had a decoupling mechanism that applies to about 60% of its loads. *See* Order No. 30267 (approving the fixed cost adjustment (“FCA”) for the commercial and residential classes); Order No. 31063 (renewing the FCA mechanism); *see also* Direct Testimony of Steven Weiss, Idaho Power

Company, Case No. IPC-E -06-08, at p. 2 (discussing the interaction of the FCA and the PCA). The Company acknowledged in its discovery response to Idaho Irrigation Pumpers Association production request no. 2 in the 2010 PCA docket (Case No. IPC-E-10-12) that “[t]he 2010 PCA is the first filing where the *annual* load growth adjustment reflected negative *annual* growth.” (emphasis in original). In other words, although the LGAR has logically been used to recognize declining loads within individual months of test year with an overall increase in load, it has never been used to increase rates in the same manner as decoupling. So, for the first time ever, Idaho Power proposed to charge ratepayers *twice for lost revenue* for the same load reduction.

Specifically, the Company’s PCA application included an increase of \$23.7 million in rates from the LGAR adjustment based on actual loads being 5.94% (889,235 MWh) lower than normalized loads. *See Application*, Case No. IPC-E-10-12, at Exhibit 1, line 13. In addition, the Company filed for the recovery of \$6.3 million through decoupling in Case No. IPC-E-10-07 from the residential and commercial classes. This means the Company applied for rate recovery of over \$30 million due to declining loads. The combination of these two applications amounted to 3.4 cents per kWh in rate recovery for each kWh of load decline -- based on the 889,235 MWh lower than normalized loads found in the PCA.

Although this double recovery will only occur for the residential and commercial classes, the Commission had not authorized any decoupling recovery for the other classes, including the industrial class. ICIP opposed this decoupling effect and requested that the Commission not allow the Company to implement this decoupling effect of LGAR without providing ICIP the opportunity to fully present its views on decoupling. While the Commission authorized the Company’s requested recovery, it nevertheless implicitly agreed in part with ICIP’s position

because it instructed the Commission Staff to convene workshops to devise a method to “eliminate potential double recovery.” *See* Order No. 31093, at p. 15; *see also* Order No. 32080, at p. 5 (Avista’s PCA case with a similar result).

C. Avista’s Proposal

At the ensuing workshop, Avista proposed a methodology whereby the utility would calculate the LGAR based upon the energy classified portion of embedded production revenue requirement as established in the cost of service for each utility. The alternative methodology maintains symmetry in growing and declining load scenarios but substantially reduces the fixed generation component of the (LGAR). This proposal purports to minimize the decoupling effect of the LGAR mechanism. The decoupling issue of fixed cost recovery through the mechanism is not completely eliminated with Avista’s proposal because part of each utilities fixed production costs are classified as energy related in cost of service studies.

COMMENTS

ICIP opposes Avista’s proposal. The LGAR was intended to prevent double recovery, and Avista’s proposal turns it into a mechanism that allows for decoupling. Avista’s proposal also proposes to use embedded costs to calculate the LGAR. But embedded costs are costs that should be associated with base rates, not a rate recovery mechanism designed solely to track changes in power supply costs due to market conditions and hydrological conditions. ICIP submits that because the LGAR is used through the PCA and is therefore preventing double recovery of power supply costs, it should be calculated based upon the marginal cost of energy. The Commission has authorized such use of the LGAR in the past, and ICIP believes it would be appropriate to return to some form of marginal cost methodology. *See* Order No. 30715, at p. 2

(discussing the past methodology).

Additionally, the LGAR should have no decoupling effect whatsoever, and should therefore be asymmetrical. Avista and the other utilities have not demonstrated that what costs they are recovering through the LGAR at times of declining loads. Staff itself concedes in its Opening Comments that Avista's proposal will only "minimize the decoupling effect of the LGAR mechanism." *Staff Opening Comments*, at p. 3. This is inconsistent with the Commission's directive to "eliminate potential double recovery." *See* Order No. 31093, at p. 15. Idaho Power already has a decoupling mechanism and should not be allowed to employ a second decoupling mechanism.

CONCLUSION

ICIP respectfully requests that the Commission reject Avista's proposal. ICIP requests that the Commission instead determine that the LGAR should be calculated based on the marginal cost of energy – not the embedded cost – and that the LGAR (load growth adjustment mechanism) only operates in times when loads are growing to avoid any decoupling effect.

Respectfully submitted this ___ day of January 2011.

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CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 14th day of January, 2011, I caused a true and correct copy of the foregoing OPEINGIN COMMENTS OF THE INDUSTRIAL CUSTOMERS OF IDAHO POWER to be served by the method indicated below, and addressed to the following:

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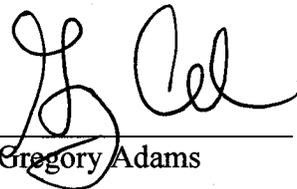
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