Office of the Secretary
Service Date
March 15, 2011

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE COMMISSION'S INQUIRY INTO LOAD GROWTH ADJUSTMENTS THAT ARE PART OF POWER COST ADJUSTMENT MECHANISMS.	)))))	**CASE NO. GNR-E-10-03** **ORDER NO. 32206**

Power supply costs represent a significant portion of a utility's total revenue requirement and are subject to a high degree of volatility largely outside the utility's control. Power cost adjustment mechanisms allow a utility to collect from customers or credit to customers the majority of the difference between actual net power costs incurred by the utility to serve its customers and the normalized amount of power supply costs collected from customers through rates set in a general rate case.

BACKGROUND

In a recent case (PAC-E-10-01), the Commission observed that in periods of declining load the mechanism "appears to operate much the same as a decoupling mechanism reimbursing the company for lost revenue for reductions in customer usage (sales)." Order No. 31033. The Commission directed Staff to hold a workshop "to discuss this phenomenon and report continued justification for use of an LGAR [load growth adjustment rate] when loads decline." *Id.*

On June 9, 2010, Commission Staff met with representatives from Avista, Idaho Power and Rocky Mountain Power to discuss the utilities' load growth adjustment mechanisms. Avista and Idaho Power utilize a Power Cost Adjustment (PCA) mechanism. Rocky Mountain Power's mechanism is characterized as an Energy Cost Adjustment Mechanism (ECAM). All three mechanisms are designed to recover/rebate abnormal power supply costs in similar ways.

On September 10, 2010, the Commission initiated this case and issued a Notice of Workshop to provide a forum for the exploration of issues related to load growth adjustments. The workshop was held September 28, 2010. Representatives from Avista, Idaho Power, and Rocky Mountain Power were in attendance. Other participants included: Commission Staff, Industrial Customers of Idaho Power, and Snake River Alliance. During the workshops some parties supported an asymmetrical approach that would remove dollar amounts from recovery by the utilities when loads grow but not make cost adjustments when loads decline. Others believed

that the adjustment can be made symmetrical and fair by simply modifying the load growth adjustment formula. Still others believe the LGAR adjustment can be eliminated entirely. Avista offered a compromise position that amounts to a revision of current methodology.

On November 24, 2010, in response to workshop discussions, the Commission issued a Notice of Filing and Notice of Modified Procedure in order to give interested persons and parties the opportunity to comment on Avista's proposal. The Notice set a comment deadline of January 14, 2011, and responsive comment deadline of January 28, 2011. Order No. 32124. After reviewing the proposal, comments, and responses of all parties, and noting our initial concerns regarding decoupling, we approve a modification to the existing LGAR formula consistent with the symmetrical approach proposed by Avista, and as more fully described herein.

THE PROPOSAL

Avista's proposal maintains symmetry in growing and declining load scenarios and substantially reduces the load growth adjustment rate (LGAR). The following table shows the LGARs under present methodology and Avista's proposed methodology for all three utilities:

UTILITY	UNITS	CURRENT METHODOLOGY	PROPOSED METHODOLOGY
Avista	$/MWh	48.00	30.16
Idaho Power	$/MWh	26.63	15.43
Rocky Mountain Power	$/MWh	19.53	4.88

The proposal calculates the adjusted rate based upon the energy classified portion of embedded production revenue requirement as established in the cost of service for each utility. Presently, the adjustment for Idaho Power and Rocky Mountain Power is based on all embedded production revenue requirement. Avista's current adjustment is based on all production and transmission revenue requirement. The proposed change reduces load decline imputed costs that accumulate in the three cost adjustment mechanisms. It also minimizes decoupling in the cost adjustment mechanisms and avoids the possibility of double recovery of demand classified embedded production revenue requirement that Idaho Power recovers from residential and small commercial customers through a Fixed Cost Adjustment (FCA) mechanism.

THE COMMENTS

Avista Comments

Avista initially offered its compromise proposal at the September 28, 2010, workshop. Avista claims that its proposal maintains symmetry in growing and declining load scenarios and substantially reduces the rate applied to the change in retail load. Avista's proposal "would calculate the load growth adjustment rate (LGAR) based upon the energy classified portion of embedded production revenue requirement as established in the cost of service for each utility." Comments at 1. The rate calculation would not include demand classified costs.

Avista explains that symmetry in growing and declining load scenarios is necessary in order to produce equitable results for the company and its customers. Avista proposes that any change to the LGAR mechanism be applied prospectively, at the start of the next 12-month deferral period for Avista's PCA, unless a general rate case is decided before then. Avista also proposes that the terminology be changed from "Load Growth Adjustment Rate" to "Load Change Adjustment Rate" to reflect its application when loads grow or decline.

Idaho Power Comments

Idaho Power's preferred methodology would be based solely on the per unit variable power supply expense amount included in base rates. Comments at 3. However, Idaho Power believes that Avista's proposal "is a reasonable alternative to the Company's preferred approach and an improvement over the stipulated methodology currently in effect." *Id.* at 4. Although Avista's proposal still includes a fixed-cost component, the proposed methodology would remove any potential double counting between Idaho Power's FCA and load growth adjustment within its PCA because Idaho Power derives its FCA rates based upon the portion of revenue requirement that is classified in cost of service as demand related fixed-cost.

Idaho Power proposes to calculate its revised LGAR using the energy related fixed-cost components from the cost of service study approved in Case. No. IPC-E-08-10. "The Company further recommends that the denominator (Idaho jurisdictional firm load) used in the revised LGAR calculation also be updated to include the current Idaho jurisdictional firm load used in the calculation of the base rates that went into effect on June 1, 2010." *Id.* at 5. Idaho

Power suggests that any new LGAR be implemented for Idaho Power on April 1, 2011, to correspond with its PCA year.

Staff Comments

Staff maintains that the purpose of a power cost adjustment mechanism is to make utilities whole in terms of variable net power supply expense (NPSE) between general rate cases (except for sharing amounts). Comments at 3. "Normal" NPSE is recovered through base rate sales. However, an adjustment must be made outside of base rates to capture the difference between actual power supply cost and the "normal" power supply cost embedded in rates. Actual NPSE recovery is not achieved without considering increases and decreases from base load. Furthermore, Staff believes that to remove over-recovered NPSE when load grows and to not restore under-recovered NPSE when load declines is unbalanced and unfair. Therefore, Staff supports a symmetrical application of the load growth adjustment methodology.

All three power cost adjustment mechanisms, as currently designed, include both fixed and variable production costs. Staff maintains that "fixed costs, if any, incurred by a utility to serve load growth have not been reviewed or approved by the Commission and have not been shown to be in excess of variable production costs on the margin collected through the PCA." *Id.* at 5. Staff notes that Avista's proposal substantially removes the fixed-cost component from the load growth adjustment rate. Because the proposal uses only energy classified production costs in the formulation of the load growth adjustment rate and Idaho Power's FCA rate is based on demand classified production costs, there would be no double recovery of fixed costs under the proposal. Staff believes that, although the fixed-cost component of the LGAR is not completely removed, the rationale and treatment under the proposal represents a reasonable compromise.

Finally, Staff recommends that each utility compute its LGAR based on its most recent Commission-approved cost of service results and that the new rates be used in PCA calculations beginning the first of the month following the Commission's Order in this case.

Industrial Customers of Idaho Power (ICIP) Comments

ICIP asks that the Commission reject Avista's proposal for maintaining symmetry in growing and declining load scenarios. ICIP argues, instead, that the LGAR should be calculated based on the marginal cost of energy and that the LGAR operate only in times when loads are growing. ICIP maintains that its proposal avoids any decoupling effect. Comments at 2. ICIP

maintains that "use of a load *growth* mechanism in the face of *declining loads* is counterintuitive and yielded unintended consequences." *Id.* at 4 (emphasis in original). ICIP states that the LGAR was intended to prevent double recovery, and that Avista's current proposal turns it into a mechanism that allows it to remain a decoupling mechanism.

Rocky Mountain Power (RMP) Reply Comments

RMP maintains that an LGAR is not appropriate for inclusion in its ECAM because the ECAM compares net power costs included in rates to actual net power costs incurred to serve customers on a cents-per-kilowatt-hour basis. "Because Rocky Mountain Power's ECAM is based on a cents-per-kilowatt-hour comparison any net power cost changes driven solely by volumetric swings are automatically excluded eliminating the need for an LGAR for Rocky Mountain Power." Comments at 5.

If the Commission utilizes an LGAR as part of a net power cost mechanism, RMP urges the Commission to adopt a symmetrical approach. The Company argues that asymmetrical application of an LGAR would be inequitable and unfair. RMP is supportive of Avista's proposal as a better alternative than the current LGAR calculation "because the proposal only includes the energy component of the production plant cost of service rather than total costs. [RMP] believes this is closer aligned to net power costs." *Id.* at 6.

Avista Reply Comments

In its reply, Avista takes exception to ICIP's proposal to base a load growth adjustment rate on the marginal cost of energy with an asymmetrical application. Avista explains that "[m]arginal costs of power have nothing to do with the over-recovery or under-recovery of production costs that are built into base rates." Reply at 2. Avista also insists that application of a load growth adjustment rate be symmetrical to avoid passing through undue benefits when loads decline, and to avoid an over-collection of costs when loads grow.

Avista opposes Staff's proposed implementation date of the first of the month following the Commission's Order. Avista believes it is appropriate to update the LGAR when new rates are implemented as a result of a general rate case or at the start of the next 12-month PCA deferral period, whichever occurs first.

Idaho Power Reply Comments

Idaho Power asserts that symmetrical application of an LGAR assures that, in periods of load growth, the Company does not receive double recovery of power supply expenses and

other specific generation-related costs. Likewise, in periods of load decline, customers do not receive a double benefit associated with reduced costs through the PCA. In its reply, Idaho Power argues that "the Avista proposal represents a reasonable compromise that will avoid the unintended recovery of fixed costs, thereby resulting in customer rates that are fair and reasonable." Reply at 2.

FINDINGS AND CONCLUSIONS

The Idaho Public Utilities Commission has jurisdiction over Avista, Idaho Power, and Rocky Mountain Power, electric utilities, and the issues raised in Case No. GNR-E-10-03 pursuant to the authority granted the Commission in Title 61, Idaho Code, and the Commission's Rules of Procedure, IDAPA 31.01.01.000, *et seq.*

In general, power cost adjustment mechanisms track and defer deviations between normal and actual power supply costs. The deferred costs that accumulate over a one-year period are then passed on to customers as a rate surcharge or credit. The Commission has approved this mechanism for each electric utility because power supply costs represent a large portion of the utility's total revenue requirement and are subject to a high degree of volatility largely outside of the utility's control. The load growth adjustment portion of the power cost adjustment mechanism removes some costs from PCA recovery when loads grow and adds some costs to PCA recovery when loads decline.

The Commission recently observed that, in periods of declining load, the load growth adjustment mechanism appeared to operate as a decoupling mechanism, reimbursing the utility for lost revenue when customer usage declined. Order Nos. 31033, 31093, 32080. The current load growth adjustment rate is based on embedded production revenue requirement. Avista's proposal calculates the load growth adjustment rate based only on the energy classified portion of embedded production revenue requirement. By removing demand classified embedded production revenue requirement from the calculation, the added costs during periods of declining load are reduced, thereby minimizing any potential decoupling effect. A symmetrical application of the methodology reduces the costs added to the PCA when loads decline and reduces the amount removed from the PCA when loads grow.

We find that Avista's proposal effectively addresses our concerns regarding decoupling within the utilities' power cost adjustment mechanisms and eliminates the possibility of double recovery of demand classified embedded production revenue requirement that Idaho

Power recovers through its Fixed Cost Adjustment (FCA) mechanism. This approach still allows the utility to recover its variable energy costs incurred to reliably serve its customers, while limiting the utility's recovery of lost revenue in periods of declining load. We continue to find that a symmetrical approach for growing and declining loads is just and reasonable to both the utility and its customers.

Avista also proposed changing the terminology from "Load Growth Adjustment Rate" to "Load Change Adjustment Rate" in order to more accurately reflect its application in growing and declining load scenarios. We find that a change in terminology is appropriate. Load Change Adjustment Rate more closely characterizes the nature of the adjustment.

Finally, the Commission directs each utility to compute its LCAR based on its most recent Commission-approved cost of service results. We note the utilities' desire to implement any change at the start of each utility's next 12-month PCA deferral period. However, no utility has provided an explanation as to why the change in calculation could not be implemented earlier. It is the Commission's intent that any decoupling effect created by the present calculation end immediately. As such, the newly-calculated LCAR shall be used in PCA/ECAM calculations beginning on April 1, 2011.

ORDER

IT IS HEREBY ORDERED that Avista, Idaho Power and Rocky Mountain Power modify their load growth adjustment rate as it pertains to each utility's power cost adjustment mechanism as more fully set out above.

IT IS FURTHER ORDERED that the proposed change in terminology from "Load Growth Adjustment Rate" to "Load Change Adjustment Rate" is approved.

IT IS FURTHER ORDERED that each utility compute its LCAR based on its most recent Commission-approved cost of service results and apply the new rates to PCA calculations beginning on April 1, 2011.

THIS IS A FINAL ORDER. Any person interested in this Order may petition for reconsideration within twenty-one (21) days of the service date of this Order. Within seven (7) days after any person has petitioned for reconsideration, any other person may cross-petition for reconsideration. See *Idaho Code* § 61-626.

DONE by Order of the Idaho Public Utilities Commission at Boise, Idaho this 15th day of March 2011.

JIM D. KEMPTON, PRESIDENT

MARSHA H. SMITH, COMMISSIONER

MACK A. REDFORD, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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