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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**
	COMMENTS OF THE COMMISSION STAFF

COMES NOW the Staff of the Idaho Public Utilities Commission, by and through its Attorney of record, Kristine A. Sasser, Deputy Attorney General, and in response to the Notice of Filing and Notice of Modified Procedure issued in Order No. 32124 on November 24, 2010 in Case No. GNR-E-10-03, submits the following comments.

BACKGROUND

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 supply expense (NPSE) incurred by the utility to serve its customers and the amount of NPSE collected from customers through rates set in a general rate case.

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's order also said, "We find the result that is presented by the use of an ECAM [Energy Cost Adjustment Mechanism] containing an LGAR [load growth adjustment rate] 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." The Commission directed Staff to hold a workshop "to discuss this phenomenon and report continued justification for use of an LGAR when loads decline." *Id.* The workshop was held September 28, 2010.

Existing Load Growth Adjustment Mechanisms

Avista and Idaho Power have Commission approved Power Cost Adjustment (PCA) mechanisms. Rocky Mountain Power has a Commission approved Energy Cost Adjustment Mechanism (ECAM). In these comments all three of the mechanisms will be referred to as Power Cost Adjustment (PCA) mechanisms for simplicity. All three mechanisms are designed to recover/rebate abnormal NPSE in similar ways. All three currently contain a load growth adjustment. The adjustment increases or decreases power cost in the PCA based on the product of the load change, normal as compared to actual, and a Commission approved load growth adjustment rate (LGAR). When loads increase, power supply costs are removed from the PCA. When loads decrease power supply costs are added to the PCA. The load growth adjustment rates are currently based on embedded fixed and variable production costs. The load growth adjustment formula is currently symmetrical in that when loads decline the load growth adjustments make the Companies whole in terms of production cost recovery because the recovery of production cost is decoupled from sales. When loads increase new production revenue generated from growing load is removed from NPSE subject to recovery by the Company.

Avista's Proposed Methodology

At the workshop, Avista proposed an alternative methodology revising the current LGAR formula. The proposal calculates 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). The proposal reduces the

impact of imputed costs in declining load scenarios and minimizes the decoupling effect of the PCA 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. The proposal does eliminate double recovery of production revenue requirement that Idaho Power receives from residential and small commercial customers through its Fixed Cost Adjustment (FCA) mechanism. 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

Load growth adjustment rates are based on embedded costs and are reset with each general rate case. Rocky Mountain Power's load growth adjustment rates are substantially lower than the other two utilities because the adjustment is applied at a different point in the PCA process after some costs have already been netted out.

STAFF ANALYSIS

There are two issues driving this case. They are both associated with declining loads and the utilities load growth adjustments that are embedded in their power cost adjustment mechanisms. The first issue deals with the recovery of variable power supply cost also defined as NPSE and the second issue deals with fixed cost recovery (decoupling).

Recovery of Net Power Supply Expense

An issue with existing PCA load growth adjustments is that they add costs to power cost adjustment mechanisms when actual monthly loads are less than normalized loads (i.e., when loads decline). These added costs are later recovered from customers through PCA rate adjustments. The question is whether or not this is appropriate. The Staff believes that the purpose of power cost adjustment mechanisms is to make utilities whole in terms of variable NPSE between general rate cases except for sharing amounts. If this is the goal the formula is clear:

Actual NPSE = normal NPSE + abnormal NPSE

Abnormal NPSE is captured in the PCA without Load Growth Adjustment. Normal NPSE is recovered through base rate sales when sales are normal, which they never are. Therefore, Normal NPSE must be broken into two parts, Actual NPSE recovered through base rates and an adjustment based on the difference between actual power supply cost and normal power supply cost embedded in rates (NPSE/kWh x load difference). If this adjustment is called a Load Growth Adjustment the formula becomes:

Actual NPSE = Actual NPSE in base rates + Load Growth Adjustment + PCA w/o LGA

Actual NPSE is not accurately calculated without including all three components. Base rate sales recover Actual NPSE included in base rates but the other two components must be recovered out side of base rates. Therefore, PCA's must include Load Growth Adjustments that are applied regardless of load increase or decrease.

The concept and formula are demonstrated with the following hypothetical example. In a given month a utility has normal NPSE of $25 million and actual NPSE of $27 million. In the same month loads and associated energy sales are below normal. The PCA, without load growth adjustment, captures the $2 million difference between normal and actual NPSE. Base rates recover $24 million in NPSE because load is below normal. Base rates and a PCA without load growth adjustment recover $26 million (24 + 2) of actual NPSE leaving the utility $1 million short of recovering the $27 million of actual NPSE it incurred. In a normal load scenario the $1 million shortfall would have come from base rates. To make the utility whole, except for sharing, the $1 million in lost NPSE revenue due to load decline must be added to the PCA which is done with a load growth adjustment. When the formula is applied the following result is obtained:

NPSE(actual) = NPSE(base rates) + LGA + PCA
NPSE(actual) = 24 + 1 + 2 = 27

The $27 million of actual NPSE is not fully recovered unless the $1 million of Load Growth Adjustment is included. See Attachment A, Scenario 1.

In a scenario where load grows, the load growth adjustment mechanism removes over-recovered base load NPSE by subtracting an appropriate amount from the PCA. This prevents the double recovery of a portion of NPSE that would occur if the PCA captured abnormal NPSE associated with growing load and an additional increment of NPSE that is recovered through base rates when load growth energy is sold to customers. Attachment A to these comments shows the results of applying the formula in four different hypothetical situations.

The 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. Staff believes that fairness demands the symmetrical application of load growth adjustment methodology in growing and declining load situations. Sharing coupled with a PCA that includes a load growth adjustment mechanism allows the utility to recover nearly all actual NPSE when load declines and requires that the utility return nearly all over-recovered actual NPSE when load grows.

PCA Fixed Cost Recovery

Fixed cost recovery is the second load growth adjustment issue. It relates to the recovery of lost revenue associated with fixed costs due to declining loads and found fixed revenue due to increasing loads. Current load growth adjustment rates are based on normal fixed and variable production costs. In the declining load scenario these costs are added back into the PCA. This creates two concerns. First, Idaho Power Company already has a functioning fixed cost adjustment (FCA) mechanism. It is based on use per customer and could double count fixed lost revenue. Second, Idaho's other two large electric utilities do not have approval for lost revenue fixed cost recovery. The load growth adjustment rate as currently designed includes both fixed and variable production costs. Although the LGAR removes fixed production cost from recoverable NPSE when loads increase, it also provides for recovery of fixed production cost lost revenues when load decreases. The Staff continues to believe that found fixed production revenue from load growth should not be retained by the Company when variable production cost to serve growing load is collected from customers through the PCA. The 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.

As previously discussed, Avista's proposal substantially removes the fixed cost component from the load growth adjustment rate which reduces the fixed cost adjustment by the PCA

mechanism in both increasing and decreasing load scenarios. Avista proposes to only use energy allocated production costs in the formulation of the load growth adjustment rate. Since Idaho Power's FCA rate is based on demand allocated production costs, there can be no double recovery of these costs under the proposal. Costs allocated by the two factors are mutually exclusive. Staff believes that while the fixed cost component of the LGAR is not completely removed, the rationale and treatment under the Avista proposal represents a reasonable compromise.

STAFF RECOMMENDATION

The Staff recommends that the Commission accept the methodology proposed by Avista to calculate the load growth adjustment rates included in the various utilities power cost adjustment mechanisms. Avista's proposal reduces the possibility of unintended fixed cost recovery in the PCA process. The Staff also supports a symmetrical load growth adjustment when loads increase and when loads decline as provided by the proposal. The symmetrical application of a load growth adjustment rate based substantially on embedded NPSE allows recovery of each utility's actual NPSE between rate cases except for a sharing amount. The Staff believes that it has demonstrated in these comments that both the revised design of Load Growth Adjustment Rates and the symmetrical application of load growth adjustments are required to provide fair revenue recovery and to avoid unintended recovery of fixed costs.

The Staff further recommends that each utility compute its LGAR based on its most recent Commission accepted 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.

Respectfully submitted this 14TH day of January 2011.

Kristine A. Sasser
Deputy Attorney General

Technical Staff: Keith Hessing

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LOAD GROWTH ADJUSTMENT SCENARIOS
CASE NO. GNR-E-10-03

Scenario 1

NPSE Increases & Load Declines

Normal NPSE	25 Million $
Actual NPSE	27 Million $
Base Rate Recovery of NPSE	24 Million $

NPSE(actual) = NPSE(base rates) + LGA + PCA

NPSE(actual) = 24 + 1 + 2 = 27 Million $

Scenario 2

NPSE Decreases & Load Declines

Normal NPSE	25 Million $
Actual NPSE	23 Million $
Base Rate Recovery of NPSE	22 Million $

NPSE(actual) = NPSE(base rates) + LGA + PCA

NPSE(actual) = 22 + 3 - 2 = 23 Million $

Scenario 3

NPSE Increases & Load Increases

Normal NPSE	25 Million $
Actual NPSE	27 Million $
Base Rate Recovery of NPSE	26 Million $

NPSE(actual) = NPSE(base rates) + LGA + PCA

NPSE(actual) = 26 - 1 + 2 = 27 Million $

Scenario 4

NPSE Decreases & Load Increases

Normal NPSE	25 Million $
Actual NPSE	23 Million $
Base Rate Recovery of NPSE	22 Million $

NPSE(actual) = NPSE(base rates) + LGA + PCA

NPSE(actual) = 22 + 3 - 2 = 23 Million $

Attachment A
Case No. GNR-E-10-03
Staff Comments
01/14/11

CERTIFICATE OF SERVICE

I HEREBY CERTIFY THAT I HAVE THIS 14TH DAY OF JANUARY 2011, SERVED THE FOREGOING **COMMENTS OF THE COMMISSION STAFF,** IN CASE NO. GNR-E-10-03, BY MAILING A COPY THEREOF, POSTAGE PREPAID, TO THE FOLLOWING:

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