

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

**IN THE MATTER OF THE REMAND)
CONCERNING IDAHO POWER COMPANY'S)
REQUEST TO RECOVER "LOST REVENUE")
FROM THE 2001 IRRIGATION LOAD)
REDUCTION PROGRAM THROUGH THE PCA)
MECHANISM IN THE 2004/2005 PCA YEAR.)**

**CASE NO. IPC-E-01-34
(ON REMAND)**

ORDER NO. 29669

In June 2004, the Idaho Supreme Court issued its amended remittitur in *Idaho Power Company v. Idaho PUC*, 140 Idaho 139, 90 P.3d 889 (2004). In its opinion, the Supreme Court set aside the Commission's decision in Order Nos. 28992 and 29103 denying Idaho Power's request to recover the "lost revenue" associated with the Company's implementation of the Irrigation Load Reduction Program in 2001. Lost revenue represents a calculated amount of revenue the Company might have received from the sale of power to irrigation customers if the Load Reduction Program had not been in operation. In overturning the Commission's Orders, the Court concluded that the "question left to be resolved at the end of the program was a determination of how those lost revenues would be computed." *Id.*, 140 Idaho at 142, 90 P.3d at 892.

On October 15, 2004, the Commission issued a Notice of Modified Procedure soliciting additional comments from the parties and interested persons regarding the calculation of the lost revenue. The Commission received timely comments from eight members of the public, the Commission Staff, the Irrigation Pumpers Association, and the Industrial Customers of Idaho Power. On November 19, 2004, Idaho Power filed reply comments. In this Order, the Commission authorizes an amount for the Company to recover as a result of the Supreme Court's decision. This will be included in the 2005 Power Cost Adjustment (PCA) case.

BACKGROUND

A. The Irrigation Load Reduction Program

During 2000-2001 Idaho Power purchased large amounts of high-cost power to meet its load requirements. In an effort to reduce electric consumption and the purchase of high-priced wholesale power, the Company initiated several load reduction programs, one of which was the Irrigation Load Reduction Program, Case No. IPC-E-01-3. This program provided

monetary incentives to large irrigation customers who could reduce their energy consumption by at least 100,000 kWh during the summer of 2001. In April 2002, the Commission issued Order No. 28992 authorizing Idaho Power to recover nearly \$74 million in payments made to participating irrigation customers for reducing their energy consumption. However, the Commission denied the Company's request to recover approximately \$12 million of "lost revenue" (\$11,587,179 plus \$428,008 in carrying charges up to March 31, 2002). Because recovery of the lost revenue was denied, the Commission did not address the Company's proposed methodology used to calculate the lost revenue. The Supreme Court's decision makes it necessary for us to do so now.

B. The Proposed Lost Revenue Methodology

Idaho Power's proposed methodology for calculating the lost revenue has three components. The Company's witness Maggie Brilz identified the three parts as: (1) the energy component; (2) the demand component; and (3) the PCA load reduction offset component. The Company's methodology has remained constant since the Company requested recovery of lost revenue. Ms. Brilz provided a more detailed description of the three components.

First, the energy component represents the reduction in revenue associated with the kilowatt-hours (kWh) bid into the Irrigation Load Reduction Program. The energy component is calculated by multiplying the kWh of reduced or conserved energy by the tariffed energy rate applicable for the specific billing period. Brilz at 5. Second, the demand component is the reduced revenue associated with the reduction in billed kW relating to the monthly irrigation season bills of June through September 2001. This is the period during which the irrigation demand charge is imposed. "Because the billed kW is directly related to the installed horsepower at each metered service point, the basis for the computation is the difference between the billed kW for the billing period this year [(2001)] compared to the billed kW for the same billing period last year [(2000)]." *Id.* at 5-6. The demand component is then computed by multiplying the difference in billed kW between the two years by the demand charge of \$3.58 per kW.

Third, the load reduction offset component eliminates a potential double accounting of reduced revenues associated with the load change that is embedded in the PCA methodology. At the time, the rate for load change adjustment within the PCA was 1.684 cents per kWh. This component also includes an adjustment for the delivery loss factor for energy sales to irrigation

customers taking power at the secondary voltage level. This delivery loss is calculated at the generation level rather than at the customer, or meter level. The Company utilized a loss factor of 10.8%. *Id.* at 6-7. Taken together, the load reduction offset component is calculated by multiplying the kWh of energy reduction for which customers received payment by 1.108 (to adjust for the 10.8% loss), and then by 1.684 cents per kWh to fully reverse the load change adjustment incorporated in the PCA mechanism. Ms. Brilz's Exhibit 2 shows the calculation of each component for the example month of August 2001.

After calculating the amount of lost revenue, two other adjustments were made. Consistent with the PCA mechanism, the amount of lost revenue was reduced by 10% to account for the 90/10 sharing adjustment incorporated in the PCA. In addition, the jurisdictional allocation process further reduced the calculated amount by 15% to allocate costs to Oregon customers. *Id.* at 12-13.

In March 2002 the Company filed its calculations for lost revenue following completion of the Load Reduction Program that concluded in October 2001. Using its three-part methodology, Idaho Power calculated that its lost revenue totaled \$11,587,179. The Company applied carrying charges at 6% interest through March 31, 2002 resulting in carrying charges of \$428,008. Thus, the Company sought to recover \$12,015,187 (\$11,587,179 plus \$428,008) in lost revenue from customers through the 2002 PCA mechanism. In April 2002, the Commission issued Order No. 28992 denying recovery of lost revenue. On reconsideration the Commission affirmed its decision to deny recovery of the lost revenue. Idaho Power subsequently appealed to the Idaho Supreme Court.

C. The Motion to Stay on Appeal and the Carrying Charges

Contemporaneously with its appeal, the Company filed a Motion to Stay with the Commission. In its Motion, Idaho Power expressed concern that without staying the Commission's Orders, the Company might be precluded from later recovering the disputed amount of lost revenue if it were to prevail on appeal. The Company also noted that it had ceased accruing any carrying charges on the lost revenue amounts as of March 31, 2002. The Company did not seek the immediate recovery of lost revenue but stated it would seek recovery of such revenue should it prevail.

In response to the Company's Motion to Stay, the Commission issued Order No. 29143. In that Order, the Commission noted that because Idaho Power does not "propose to

accumulate any additional carrying charges during the pendency of the appeal,” the Commission found that a stay was not necessary. Order No. 29143 at 6.

RECENT COMMENTS

1. Public Comments. As previously mentioned, the Commission received comments from eight members of the public. Seven comments simply opposed recovery of any lost revenue. Most of those opposing recovery suggested that Idaho Power should absorb the loss of the revenues. The remaining comment simply asked the Commission to “ensure the \$12 million is a legitimate figure.”

2. Industrial Customers of Idaho Power (ICIP). ICIP recognized that the Commission “is mandated in this case to allow” recovery of lost revenue. ICIP Comments at 1. However, ICIP argued that allowing the Company to recover its lost revenue “would essentially place the entire burden of the energy crisis (the ten percent PCA share notwithstanding) on the backs of Idaho Power’s ratepayers.” *Id.* at 2. ICIP suggested that the lost revenue associated with the Irrigation Buy-Back Program should be discounted “to take into account the fact that the Company incurred no costs associated with the purported lost revenue amount of approximately \$12 million.” *Id.*

3. Commission Staff. After reviewing the Company’s methodology, the Staff concurred that the three-part formula is the appropriate method to calculate lost revenue. The Staff also noted that the current calculation of lost revenue and the carrying charge “is approximately 60% of that proposed by the Company in its original filing.” Staff Comments at 5. The Staff maintained that the Irrigation Load Reduction Program was different than traditional DSM programs because the actual energy savings are known and measurable, and occurred in a single year at a set price. Staff calculated the amount of lost revenue that should be recovered from Idaho ratepayers to be \$11,587,179 – the same amount requested by Idaho Power. *Id.*

Staff also confirmed that the appropriate carrying charge attributed to the program up until March 31, 2002 should be \$428,008. However, Staff maintained “carrying charges are not appropriate for the period beyond March 2002 during the pendency of the appeal (April 1, 2002 to May 31, 2004).” *Id.* at 6. The Staff argued the Company previously waived these carrying charges when it stopped accruing carrying charges during the appeal.

4. Idaho Irrigation Pumpers Association. The Irrigators noted they have supported the recovery of “some level of lost revenues in this case” only because the reduced energy levels were quantifiable and isolated in a single program. Irrigators Comments at 2. The Irrigators suggested the Commission make three adjustments to the Company’s calculations, which would result in a lost revenue amount of \$6,058,249 (computed without carrying charge). The three adjustments are discussed in greater detail below.

First, the Irrigators recommend that the Commission make a jurisdictional adjustment to remove Idaho Power’s Oregon and Prairie Power operations. More specifically, the Irrigators assert “Prairie Power was a separate jurisdiction of Idaho Power.” Thus, the Commission should delete the energy and demand components associated with these two areas from the calculation of lost revenue. *Id.* at 1. The Irrigators proposed an adjustment of \$639,597. *Id.* at 8.

Second, the Irrigators maintained that Idaho Power should have calculated the demand component averaged over a number of years instead of using the difference between calendar years 2000 and 2001. They asserted just looking at the previous year’s billed demand “would not necessarily be reflective of any year in the future,” especially when “irrigation usage varies widely from year to year.” *Id.* They suggested the Commission should use a five-year average. Using a five-year average, the Irrigators estimated that the irrigation demand in the year 2000 was 18% higher than the average over the past five years. *Id.* at 3. Accordingly, the Irrigators’ demand adjustment would reduce lost revenues by \$481,691.

Third, the Irrigators take issue with the PCA elements of the Company’s energy component. They maintained that Idaho Power’s energy component consists of three sub-components. The sub-component and the associated prices are:

	<u>Cents/kWh</u>
Basic Tariff Rate	2.8416
PCA Forecast Rate	0.3861
PCA True-Up Rate	<u>0.9554</u>
Total Tariff Rate	4.1831

The Irrigators assert that only the basic tariff rate is appropriate for inclusion in the energy component of the lost revenue calculation. *Id.* at 5.

The Irrigators stated there are three reasons why the PCA forecast rate should not be considered as a component of lost revenue. First, they insisted the PCA forecast rate is reflective of “anticipated” power supply costs. The second and third reasons apply both to the PCA

forecast rate and to the PCA true-up rate. They argued it is inappropriate to estimate lost revenue by using the PCA forecast and true-up rates because these PCA rate elements would go to the Company's bottom line "and not as an off-set to the Company's PCA cost as the PCA forecast rate and PCA true-up rate are designed to do." *Id.* at 6-7.

The Irrigators also insisted that the Company's workpapers reflect that a substantial amount of load was actually served above the "normalized load" used to calculate the PCA forecast rate. "Thus, in spite of the significant reductions of load by the Irrigation Buy-Back Program, the Company is still going to collect far more PCA Forecast Rate [and true-up rate] revenue during the irrigation season than what can be anticipated to be recorded under 'normalized loads' . . . [and] to balance out the previous year's costs." *Id.* at 6, 8.

In summary, the Irrigators calculate that the appropriate amount of lost revenue to be recovered is \$6,058,249, without carrying charges. They did not address carrying charges beyond March 2002.

IDAHO POWER'S REPLY COMMENTS

The Company submitted its reply comments on November 19, 2004. The Company's reply comments addressed the comments raised by the Staff, the Industrial Customers of Idaho Power (ICIP) and the Irrigators. In reply to the ICIP comments, the Company asserts that ICIP provided "no analysis or substantive comments" on the calculation of lost revenues. Reply Comments at 15.

1. Reply to the Staff. While Idaho Power recognized that the Staff is in agreement with recovery of the calculated amount of lost revenue and the carrying charges through March 2002, the Company also asserted that it is entitled to receive carrying charges at 6% in the amount of \$1,506,333 for the period April 1, 2002 through May 31, 2004 (during the appeal). In addition, the Company requested carrying charges in the amount of \$695,230 for the period of June 1, 2004 through May 31, 2005 (June 1, 2005 being the date that the 2005 PCA rates go into effect). Idaho Power Reply Comments at 6, 16.

Idaho Power maintained that Staff misconstrued the Company's statement that it was no longer calculating interest during the pendency of the appeal to mean that Idaho Power agreed to forego interest during the period even if the Company was successful on its appeal. *Id.* at 6-7. The Company stated the reason it discontinued the booking of the carrying charges was to comply with financial accounting requirements. Idaho Power insisted that not allowing the

Company to recover the carrying charges during the pendency of the appeal would, in effect, penalize the Company for appealing the Commission Orders that were eventually set aside by the Court. *Id.* at 7.

2. Reply to the Irrigators. Idaho Power takes issue with the Irrigators' three adjustments. The Company objected to the Irrigators' proposal to use a five-year average to calculate the demand component. Idaho Power maintained that unlike energy usage, irrigation demand is not weather sensitive. "If an irrigation pump is operative for one hour during a month or 720 hours during a month, the peak demand will be the same; however, energy usage would vary significantly. In the short run, demand has no correlation with energy." Reply Comments at 9.

Idaho Power also pointed out that the demand component of the Company's three-part methodology is not based on irrigation class data. The Company stated that the RFPs issued to irrigation customers in February 2001 was used to compute the base consumption amount for each customer unless there was a change in pumping horsepower. *Id.* at 10. The Company insisted that the five-year average "would cause a mismatch between the data used to calculate the base energy usage and the data used to the calculate the demand component." *Id.* The Company's methodology calculated the demand component "on a customer-by-customer, month-by-month, and service point-by-service point basis. The Company's methodology, . . . closely ties the calculation of the revenue impact with the actual behavior of each customer participating in the voluntary Irrigation Load Reduction Program." *Id.* at 11. In essence, using a five-year average would understate the amount of reduced revenue that would be recovered through the PCA.

Idaho Power next asserted removing the PCA forecast and true-up elements of the energy component is inappropriate and unreasonable. Idaho Power maintained the PCA components are an integral part of the Commission approved energy rate included in the Company's Tariff Schedule 24 and effective during the 2001 irrigation season. *Id.* The Company characterized the Irrigators' PCA adjustments as "less certain" than the base rates. *Id.* at 12. However, Idaho Power insisted the Irrigators have again failed to note that the Company's calculation of lost revenue is based upon the actual data of participating irrigators and not the entire irrigation class. *Id.* at 12-13.

Idaho Power argued the PCA forecast and true-up components must be included in the energy component. Idaho Power maintained that the “Irrigators ignore the fact that had the irrigation customers that participated in the Program consumed energy, they would have paid for that energy under a rate which included the entire PCA component[s].” *Id.* at 13 (emphasis added). Idaho Power recognized the PCA forecast rate “may overstate or understate power supply costs thus the need for a true-up” component. *Id.* at 13.

Idaho Power next addressed the Irrigators’ observation that loads grew in spite of the Irrigation Load Reduction Program. Idaho Power argued that changes in load are accounted for through the normalization process. “In that process, revenues from the PCA forecast rate component are also normalized as a reduction to the normalized PCA expense, thus maintaining a consistent approach to normalized revenues and normalized expenses.” *Id.* at 4. The Company asserted the Irrigators made the same error on both the forecast and true-up components of the PCA. Thus, Idaho Power urged the Commission to reject the Irrigators’ PCA adjustments to the energy component.

In summary, Idaho Power urges the Commission to award it lost revenue in the amount of \$11,587,179. In addition, the Company seeks recovery of the carrying charges at 6% from April 1, 2002 to May 31, 2005 totaling another \$2,629,571. If the Commission decides that further proceedings are necessary, then the Company requests, at a minimum, that the Commission award it the undisputed amount suggested by the Irrigators of \$6,058,249 plus carrying charges. The Company suggests that the Commission set a hearing to address the amounts in dispute if it is unable to award the Company its total request. Reply Comments at 16-17. The table below summarizes Idaho Power’s request.

Calculated Amount of Lost Revenue	\$11,587,179
Carrying charges to 3/02 (6%)	\$ 428,008
Carrying charges 4/02 to 6/04 (6%)	\$ 1,506,333
Carrying charges 6/04 to 6/05 (6%)	\$ <u>695,230</u>
Total Request	\$14,216,750

DISCUSSION AND FINDINGS

Pursuant to the Supreme Court’s opinion, the remaining question for the Commission is the computation of the lost revenues. Idaho Power proposed using a three part methodology to calculate the lost revenues associated with the Irrigation Load Reduction Program. In its

comments Staff reiterated its belief that the proposed methodology “is reasonable and appears to capture all the relevant costs and cost offsets associated with the program.” Staff Comments at 5. The Irrigators do not oppose the use of proposed methodology, but recommend three adjustments. Based upon this apparent agreement and our review of the methodology, we find that the proposed methodology is a reasonable and fair mechanism to calculate lost revenue. As Staff noted, the methodology should allow Idaho Power to recover its relevant cost on a revenue neutral basis. We next address the three adjustments recommended by the Irrigators.

1. The Jurisdictional Adjustment. The Irrigators first proposed an adjustment of \$639,597 to the Company’s calculation of lost revenue. We find the proposed adjustment is redundant, especially as it relates to the Oregon jurisdiction. As adopted, the lost revenue methodology recognizes the allocation between the Oregon and Idaho jurisdictions. This 15% adjustment for the Oregon jurisdiction is reflected in both the Company and Irrigators’ calculations. In addition, the Irrigators did not explain the Prairie Power adjustment. In Order No. 24398, the Commission authorized Idaho Power to purchase the assets of Prairie Power Cooperative in 1992. The former Prairie Power customers were (at the time) a small load and are now incorporated into the general rate schedules. Former Prairie Power customers will pay 2005 PCA rates. Consequently, we are not persuaded that this jurisdictional adjustment is appropriate.

2. The Demand Component. Instead of simply comparing the demand between the participants in their 2001 irrigation season to their 2000 billed kW, the Irrigators proposed that the Company use a demand component averaged over five years (from 1996 to 2000) based upon consumption for the entire class of irrigators. Using the five-year average would reduce the Company’s lost revenue by \$481,691.

We decline to adopt the Irrigators’ demand adjustment. The proposed demand calculation was based upon those service points actually participating in the Irrigation Load Reduction Program rather than the entire class of irrigators. Reply Comments at 9. Rather than using the five-year average, we find that comparing the participants demand in 2001 with their demand data for the 2000 irrigation season is a better gauge of irrigation demand for those participating in the program. We find the Company’s proposal of computing the demand component based upon a participating customer-by-customer, month-by-month, and service

point-by-service point basis to be more appropriate. Consequently, we decline to adopt the Irrigators demand component adjustment.

3. The PCA Adjustments. The Irrigators' final adjustment concerns the energy component. The energy rate used by the Company and Staff to compute the lost revenue was 4.183 cents per kW. This was the three element, in-season irrigation rate for May through September 2001. The Irrigators' adjustment would remove the two PCA rate elements (totaling 1.3415 cents/kWh) and would only use the basic tariff rate when calculating the lost revenue attributable to the energy component.

The Irrigators arguments against recovery of the PCA elements can generally be characterized in two ways. First, the PCA forecast and true-up rates are calculated based upon normalized load. Actual revenues collected has little relationship to recovery of actual power supply costs incurred. With or without a buy-back program there is no true up of the true-up, the Company simply keeps the revenues it receives. Second, by including the two PCA elements, the Company will over-collect these PCA revenues and this additional revenue will simply be a windfall to the Company. Based upon our review, we are not persuaded that this PCA adjustment is fair or reasonable.

The Irrigators contend that if the PCA elements are not removed, then the Company will recover more revenue than it anticipated from its PCA forecast rate and more than it was entitled to from its PCA true-up rate. However, we find that this is not the case. In particular, the Company's methodology uses a 1999 level of energy consumption to calculate the PCA true-up rate rather than the normalized level of consumption calculated in the 1993 rate case. The difference between using the 1993 and the 1999 data results in a true-up deficit rather than a true-up windfall. Consequently, we reject the Irrigators' adjustment to eliminate the true-up rate.

The same can be said for recovery of the 2001 forecast power supply costs. While the PCA forecast rate in 2001 generated more revenue than the Company anticipated, the Company ultimately failed to recover 2001 power supply costs once 2002 true-up revenue was combined with the 2001 forecast revenue. We find there is no windfall by including the PCA forecast rate. Idaho Power is not over-compensated with respect to power supply cost recovery and was in a greater deficit situation than it otherwise would have been because of the Irrigation Load Reduction Program. Consequently, we do not adopt the PCA adjustment. We find it

reasonable to allow recovery of lost revenue associated with the PCA forecast and PCA true-up elements of the energy rate as calculated by the Company and supported by the Staff.

Having rejected the Irrigators' adjustments, we find the Company is entitled to recover its lost revenue in the amount of \$11,587,179 as proposed by the Company and agreed to by the Staff.

4. The Carrying Charge. We next turn to the interest rate for the carrying charge. It appears undisputed that Idaho Power is entitled to carrying charges calculated at 6% up to March 31, 2002. The Company and the Staff agree that this results in a carrying charge up to that time of \$428,008. We concur with these calculations and find that the Company should be allowed to recover \$428,008 in carrying charges at 6% until March 31, 2002.

The Staff and the Company disagree whether the Company should recover carrying charges during the pendency of the appeal, from April 1, 2002 through May 31, 2004. The Company argued that it should be allowed to recover carrying charges in the amount of \$1,506,333 at 6% during the appeal period. Reply Comments at 16. The Staff did not address the period from the remittitur to the 2005 PCA effective date.

Based upon our review of the comments and our prior Orders, we find it reasonable for Idaho Power to recover carrying charges during the pendency of the appeal and up to the time that it will begin to recover its lost revenue in the 2005 PCA year. The Supreme Court set aside our Orders and awarded the Company lost revenue. It would be unreasonable and inappropriate to deny the Company carrying charges for that period of time.

Although we find that the Company is entitled to carrying charges from April 1, 2002 through May 31, 2005, we find that Idaho Power has used the wrong rate to calculate the carrying charges. Typically, the carrying charges are applied to deferral accounts that are normally recovered the following year, e.g., the PCA mechanism. In this case, Idaho Power proposes to recover its lost revenue and carrying charges in the 2005 PCA case. In Order No. 24806, the Commission noted that carrying charges for the PCA are based upon the utility customer deposit rate found in the Commission's Customer Relations Rule 106, IDAPA 31.21.01.106. Although the deposit rate for calendar year 2001 was 6% interest, the rate decreased in subsequent years.

While we recognize that the carrying charges have decreased since 2001, we also recognize the Company has not been able to recover its lost revenue. Balancing the decline in

carrying charges with the longer period before recovery, we find that the appropriate interest rate for the carrying charges given the unique facts of this case should be 4%. Consequently, we find that it is appropriate for the Company to recover carrying charges at 4% from April 1, 2002 through May 31, 2005 in the amount of \$1,467,695.

In summary, we adopt the Company's three-part methodology for calculating lost revenue. We decline to accept the Irrigators proposed adjustments and the Staff's argument regarding carrying charges. Consistent with the Court's decision, Idaho Power is authorized to recover lost revenue and carrying charges as set out below:

Lost Revenue	\$11,587,179
Carrying Charge to 3/31/02 (6%)	\$ 428,008
Carrying Charge from 4/1/02 to 5/31/05 (4%)	<u>\$ 1,467,695</u>
TOTAL	\$13,482,882

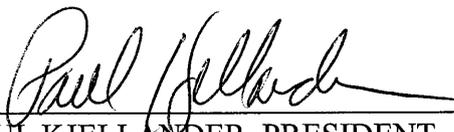
ORDER

IT IS THEREFORE ORDERED that Idaho Power's Application to adopt its three-part methodology to calculate lost revenue is granted.

IT IS FURTHER ORDERED that Idaho Power is authorized to recover lost revenue in the amount of \$13,482,882, including carrying charges as set out in greater detail above. This amount shall be included in the Company's 2005 PCA case.

THIS IS A FINAL ORDER. Any person interested in this Order (or in issues finally decided by this Order) or in interlocutory Orders previously issued in this Case No. IPC-E-01-34 (On Remand) may petition for reconsideration within twenty-one (21) days of the service date of this Order with regard to any matter decided in this Order or in interlocutory Orders previously issued in this Case No. IPC-E-01-34 (On Remand). 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 29th
day of December 2004.



PAUL KJELLANDER, PRESIDENT

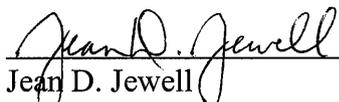


MARSHA H. SMITH, COMMISSIONER



DENNIS S. HANSEN, COMMISSIONER

ATTEST:



Jean D. Jewell
Commission Secretary

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