Office of the Secretary
Service Date
May 31, 2012

BEFORE THE IDAHO PUBLIC UTILITIES COMMISSION

IN THE MATTER OF THE APPLICATION OF IDAHO POWER COMPANY FOR AUTHORITY TO IMPLEMENT POWER COST ADJUSTMENT (PCA) RATES FOR ELECTRIC SERVICE FROM JUNE 1, 2012 THROUGH MAY 31, 2013	)	**CASE NO. IPC-E-12-17** **ORDER NO. 32552**

On April 13, 2012, Idaho Power Company filed its annual power cost adjustment (PCA) Application. Since 1993, the PCA mechanism has permitted Idaho Power to adjust its PCA rates upward or downward to reflect the Company's annual "power supply costs." Because about half of the Company's generation is from hydropower facilities, Idaho Power's actual cost of providing electricity (its power supply cost) varies from year to year depending on changes in Snake River streamflows, the amount of purchased power, fuel costs, the market price of power, and other factors.[1] The annual PCA surcharge or credit is combined with the Company's "base rates" to produce a customer's overall energy rate.

This year Idaho Power calculates that its annual power costs have increased above the normalized PCA rates. The Company estimates that the existing PCA rates should be increased by about $43 million, or an average increase in the existing PCA rates of approximately 5.10%. The Company proposes to offset its proposed PCA rate increase with revenue credits (about $27.1 million) from its Revenue Sharing Case (IPC-E-12-13). When the two cases are combined, the Company proposes that the overall average increase in PCA billed rates would be 1.71% for tariff customers and between 6.12% and 7.62% for the four special contract customers. The Company proposes that the PCA rates become effective on June 1, 2012.

On April 25, 2012, the Commission issued Order No. 32533 requesting public comment on the PCA Application. The Commission's Notice of Modified Procedure requested that written comments be filed no later than May 15, 2012. In response to the Commission's Notice, comments were filed by several customers, Snake River Alliance (SRA), and Commission Staff. The Company filed timely reply comments. As set out in greater detail

[1] For example, the revenue from the sale of sulfur dioxide (SO_2) allowances.

below, the Commission approves Idaho Power's PCA Application with new PCA rates effective June 1, 2012.

THE PCA MECHANISM

The annual PCA mechanism is comprised of three major components. First, PCA rates are calculated to reflect projected power costs for the coming PCA year (June 1, 2012 to May 31, 2013) using the Company's most recent "Operating Plan." This method replaced the previous methodology that was based solely on streamflow forecast and a regression formula derived from rate case data. Order No. 30715. In years of abundant snowpacks and streamflows, the Company's power supply costs are usually lower because of the availability of relatively inexpensive hydro-generation. Conversely, when streamflows or snowpacks are low, Idaho Power must rely increasingly upon its other thermal generating resources and purchased power from the regional market. The Company's other thermal generating resources (coal and gas plants) and purchased power are typically more costly than the Company's hydro-generation.

The first component of the PCA is the forecasted or projected power costs including: fuel costs; transmission costs for purchased power; PURPA contract expenses; surplus sales revenues; Hoku first block take-or-pay revenues; and revenues from the sale of renewable energy credits (RECs) and sulfur dioxide allowances. Under the PCA mechanism, the Company may recover 95% of the difference between the non-PURPA projected power costs and the approved base power cost. Order No. 30715. The Company is allowed to recover 100% of the costs of its PURPA contracts. In last year's rate case, the Commission determined that the Company should recover 100% of its demand-side management (DSM) incentive and conservation costs as part of the PCA. Order No. 32426 at 3. The Commission set the base for DSM costs as $11,252,265.

Second, because the PCA includes forecasted costs, the preceding year's forecasted costs are "trued-up" based upon the actual costs incurred during the prior year. Third, "reconciliation"[2] of the previous year's true-up component under which any overrecovered or underrecovered balance from the second component is credited to or collected from this year's PCA rate. This third component is designed to ensure the Company recovers the actual approved costs. Consequently, ratepayers will pay for the actual amount of power sold by Idaho Power to meet native load requirements – no more or no less. Order No. 29334 at 4. Thus, ratepayers

[2] This reconciliation component has often been referred to in the past as the "true-up of the true-up."

receive a rate credit when power costs are low, but are assessed a rate surcharge when power costs are high.

THE PCA APPLICATION

A. The PCA Components

This year's PCA Application includes the forecast of projected power costs based upon the most recent Operating Plan; a true-up of last year's forecasted costs to reflect actual costs; and reconciliation of the 2011-2012 PCA year true-up. The Company calculates that the adjusted PCA forecast amount is about $70.29 million more than the PCA base amount approved in Order Nos. 31042 and 32426.

1. Forecast. The PCA power forecast component is comprised of three elements. First, the cost of the non-PURPA expenses of $69,778 (shared at 95%) is 0.0005 cents per kWh. Application at 4; Wright Dir. at 11. Second, the Operating Plan's quantification of PURPA expenses (tracked at 100%) is $66,738,659 greater than the $62.8 million quantified in the power supply expenses approved in Order No. 31042. *Id.* This results in a rate for PURPA expenses of 0.4830 cents per kWh. *Id.* Third, the Operating Plan estimates demand response incentive payments above the base of $3,470,945 (tracked at 100%). Dividing this last amount by the jurisdictional firm sales of 13,172,433 MWh results in a rate of 0.0264 cents per kWh. *Id.* Consequently, the projected forecast component of the PCA is 0.5099 cents per kWh (.0005 cents + .4830 cents + .0264 cents). Application at 4-5; Wright Dir. at 11-12.

2. The True-up. Idaho Power reports that it overrecovered last year's forecast costs and actual costs in the amount of $17,646,658 (a credit to ratepayers). *Id.* at 5; Wright Dir. at 16. This amount is divided by the projected jurisdictional sales to arrive at a credit to customers of (0.1340) cents per kWh.

3. Reconciliation. The Company states that last year it overcollected the PCA deferral balance by $5,165,169. Application at 5; Wright Dir. at 17. Dividing this amount by the projected jurisdictional sales results in a PCA reconciliation credit to customers of (0.0392) cents per kWh. *Id.*

Combining the three components – the projected power costs rate of 0.5099 cents, the true-up credit of (0.1340) cents and the reconciliation credit of (0.0392) cents – results in a uniform PCA rate for the 2012-2013 PCA year of 0.3367 cents per kWh.

4. Other Adjustments. This year's PCA Application includes two other adjustments to the projected power cost component (in addition to the DSM adjustment mentioned above). First, the Company adjusted its projected power costs to reflect recent changes in the Idaho Power-Hoku special contract. Earlier this year, the Commission adopted changes to this special contract which reduced Hoku's monthly minimum (take-or-pay) charge to $800,000 per month. The Company also reduced Hoku's load to zero from January 1, 2012 through June 30, 2013. Wright Dir. at 8; Order Nos. 32486 and 32525. Second, the Company's Operating Plan for the PCA year includes the Company's new Langley Gulch power plant with a projected on-line date of July 1, 2012. Wright Dir. at 8-9; Case No. IPC-E-12-14.

B. The PCA Rate Proposal

Idaho Power has proposed to implement the PCA rates on June 1, 2012. The Company asserts each customer class will receive a different percentage increase. When the proposed PCA rate is combined with the sharing rates, the table below shows the proposed combined rates for the major customer classes:

Combined PCA and Revenue Sharing Rates

Customer Group (Schedules)	Current PCA Rate	Proposed Combined Rate	Percentage Change
Residential (1)	.0289¢/kWh	.0793¢/kWh	.62%
Small Commercial (7)	.0539¢/kWh	.0094¢/kWh	(.43%)
Large Commercial (9)	.0040¢/kWh	.1492¢/kWh	2.66%
Industrial (19)	(.0137)¢/kWh	.1986¢/kWh	5.03%
Irrigation (24)	.0114¢/kWh	.1295¢/kWh	1.85%

Source: Atch. 2; Atch. 3, p. 2; Exh. 2

The PCA rates for Idaho Power's four special-contract customers would also increase. Under the Company's proposal, the PCA rate for all the special-contract customers would be 0.3367 cents per kWh. *Id.* In addition, each special contract will receive a monthly credit during the PCA year in the following amounts: Micron–$46,803; Simplot–$18,362; DOE (INL)–$22,906; and Hoku–$7,685. Atch. 2, p. 3.

THE COMMENTS

Initial comments were filed by several customers, SRA, and Staff. The eight public comments from customers opposed the proposed rate increase. These customers argued that the increase was unwarranted for low-income customers and those on fixed incomes. Two customers objected to the proposed rate increase arguing that the Company's officers are paid too much. Finally, one customer commented that his small business should not have to pay for wind power, while another customer said the Company seemed to be "waging an all out war against PURPA projects."

1. Staff. Staff analyzed each of the three separate PCA components and their supporting calculations. Based upon this review, Staff confirmed that the Company correctly recorded its annual power supply costs and correctly calculated the three separate PCA rate components. Staff calculated that the uniform PCA rate is 0.3367 cents per kWh (comprised of the forecast 0.5099 cents, minus the true-up 0.1340 cents, minus the reconciliation 0.0392 cents). Staff agreed that combining the rate credits ($27.1 million) from the Revenue Sharing case, results in the combined PCA/Revenue Sharing rates shown in Company Exhibit 2.

Staff also offered two observations to improve the PCA methodology and process. First, Staff expressed concern that the Company does not use actual energy sales to calculate revenue from the previous year's forecast rate but uses normalized energy data. Although normalized data has been used for many years, Staff stated that it intends to discuss with the Company the use of actual energy sales data and the approved true-up rate to calculate true-up revenue for future PCA cases. Comments at 8-9.

Second, Staff was critical of the Company's Customer Notice in this case for two reasons. Before the Company decided to issue "supplemental" Customer Notices, there would have been more than 100,000 customers who would not have received their bill stuffer notices until after the comment due date. Staff agreed with the Company's decision to issue the supplemental notices and suggested that future notices in fast-tracked cases be timely issued so that customers may receive proper notice. In addition, Staff asserted that the Customer Notice was confusing not because it dwelled on PURPA costs, but because it urged customers to comment in a wholly separate case, GNR-E-11-03.

2. SRA. The Alliance was concerned that "Idaho Power is using this PCA [case], among other venues, as an arena to press the arguments it is attempting to make in 'the generic PURPA case, GNR-E-11-03." Comments at 1. While SRA does not disagree that an increase in wind QF expenses is "playing a role in this PCA," SRA urged the Commission to reserve judgment on "the burden wind is placing on the Company and its customers." *Id.* at 2. In particular, SRA suggested that the Commission "withhold judgment on this application until a more detailed

accounting of existing and expected wind contracts is furnished" so PURPA issues can be reviewed in greater detail in the generic docket.

SRA suggested that until the generic case "is resolved and more certainty is reached," it does not understand how Idaho Power can project future costs of PURPA contracts given the facts that some "Commission-approved" QF projects may not be built. *Id.* Snake River declared that it believes

> the company's use of its required Customer Notice for [this] PCA [case] veers well beyond simply informing customers of the nature of the PCA and drifts instead into a frontal assault on the company's obligation under PURPA and into advocacy for the separate GNR-E-11-03 [case]. . . .

Id. at 3.

The Alliance also asserted that the majority of recent Company filings involving multiple rate adjustments makes it difficult for customers "to keep track of so many cases that may have an impact on their rates, let alone understanding the nature of each case." *Id.* at 3-4. SRA complained that when customers receive a Customer Notice about the PCA rate increasing 5.1% "and that the culprit is wind power," the results are predictable in that customers will object to wind resources. Snake River pointed out that customers may lose sight of the fact that Langley Gulch represents an increase in base rates of 7.1% as compared to the annual PCA increase of 5.1%. "It could be argued that the current and cumulative impacts of the Langley Gulch plant may be far greater than those associated with QF wind energy purchases. Yet Idaho Power customers are not showered with company fliers regarding the rate impacts of Langley Gulch as they are with the company's arguments in the PURPA case and wind QFs in particular." *Id.* at 4.

3. Idaho Power Reply. In its reply comments, the Company disagreed with comments regarding the propriety of including information about the impact of PURPA expenses in the PCA case. Reply at 2. The Company pointed out that the testimony of its witness Scott Wright discloses that PURPA-related expenses accounted for 95% of the $70.3 million PCA revenue increase. The Company asserted that it "is critical to inform customers of PURPA's financial impact on rates and the existence of another docket evaluating PURPA matters generally to allow customers to fully participate in the regulatory process." *Id.* at 3. The Company was concerned that if it did not bring the generic PURPA case to the attention of customers, that it would "be negatively viewed as limiting customer participation or as a

purposeful omission." *Id.* Moreover, the Company observed that customers will not receive a separate notification of the generic PURPA case.

The Company insisted that the "brief reference" to the PURPA docket in the PCA Customer Notice "was not done in a matter that would cause confusion; it was related to a component of the proposed PCA rate change and clearly set forth to promote customer participation rather than to hinder it." *Id.* at 4.

Idaho Power also commented on SRA's suggestion that the Commission "withhold judgment on this application." *Id.* The Company does not believe that a more detailed analysis of PURPA wind contracts will provide any additional information that Staff has not already audited. Consequently, the Company requests that the Commission approve proposed tariff Schedule No. 55 to be effective June 1, 2012.

DISCUSSION AND FINDINGS

After reviewing the PCA Application and the comments filed in this case, the Commission finds it is reasonable to grant Idaho Power's Application to increase its PCA rates for the 2012-2013 PCA year. We find that the combination of the three PCA components results in a uniform PCA rate of .3367 cents per kWh. We note that a substantial part of the annual PCA revenue increase is caused by the unavoidable need to recover the costs of more PURPA contracts. Consequently, we find that the current PCA rates are insufficient for the Company to recover its annual power costs. *Idaho Code* § 61-502.

We further find that is reasonable to offset the PCA rate increase with revenues from the Company's Revenue Sharing case (IPC-E-12-13). The $27.1 million in revenue sharing funds will offset the increase attributable to the PCA rates. When the PCA rates are combined with the revenue sharing funds, we find that the combined PCA rates in Schedule 55 are fair, just and reasonable. *Id.*

We also encourage Staff to discuss with the Company Staff's concerns about using normalized data versus actual data in the true-up component of the PCA mechanism. These discussions should take place well before the filing of next year's PCA application.

We share Staff's concern about the timeliness of the Customer Notice in this case. To allow customers the opportunity to meaningfully participate in our proceedings, they must be provided with timely notice of proposed rate increases before the effective date of such increases. As provided in our Rule 125.02, "annual cost adjustment cases that result in an increase in rates remain subject to the requirements of advance notice contained in this rule." IDAPA 31.01.01.125.02 (emphasis added). The purpose of Rule 125 is to allow customers an opportunity to participate in our cases in a meaningful manner. If the Company had adhered to the schedule for mailing the notice in this case more than 100,000 customers would not have received notice about this case until after the comment deadline had closed. Although the Company subsequently mailed timely "supplemental" customer notices to these customers, the Company should ensure that its future filings provide timely notice to customers in the first instance.

Given the comments, we also reviewed the content of the PCA Customer Notice. While we recognize that recovery of PURPA contract costs plays a significant role in this year's PCA increase, suggesting in the PCA notice that customers comment in the different, generic PURPA case (GNR-E-11-03) is confusing. The Commission expects the Company's Customer Notice to inform customers that they may comment about the Company's application in the proceeding in which the application is being reviewed. The Company should review the requirements of Rule 125 to ensure that its customer notices comply with the criteria set out in our rule.

ORDER

IT IS HEREBY ORDERED that the Application of Idaho Power Company to increase its Power Cost Adjustment (PCA) rates effective June 1, 2012 through May 31, 2013, is approved as set forth in this Order. The uniform PCA rate shall be 0.3367 cents per kWh for all customer classes and the four special-contract customers. The PCA revenue increase shall be combined and offset with the credits from the Revenue Sharing case.

IT IS FURTHER ORDERED that the combined PCA and revenue sharing rates contained in tariff Schedule No. 55 shall be effective for service on June 1, 2012.

IT IS FURTHER ORDERED that the Company conform its practices and the content of individual customer notices to the requirements of Rule 125, IDAPA 31.01.01.125.

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-12-17 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. 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 31st day of May 2012.

PAUL KJELLANDER, PRESIDENT

MACK A. REDFORD, COMMISSIONER

MARSHA H. SMITH, COMMISSIONER

ATTEST:

Jean D. Jewell
Commission Secretary

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