

DECISION MEMORANDUM

**TO: COMMISSIONER KJELLANDER
 COMMISSIONER REDFORD
 COMMISSIONER SMITH
 COMMISSION SECRETARY
 COMMISSION STAFF**

**FROM: DON HOWELL
 DEPUTY ATTORNEY GENERAL**

DATE: APRIL 20, 2011

SUBJECT: IDAHO POWER'S PCA APPLICATION, CASE NO. IPC-E-12-17

On April 13, 2012, Idaho Power Company filed its annual Power Cost Adjustment (PCA) Application. In the current Application, Idaho Power asserts that its annual "power supply costs" have increased above the normalized PCA rates. The Company proposes to increase the existing PCA rates by about \$43 million, or an average increase in the existing PCA rates of approximately 5.10%. Atch. 3, p. 1. When the PCA rate increase is combined with the revenues to be credited to customers from the Company's Revenue Sharing Case (IPC-E-12-13), Idaho Power calculates the overall proposed average increase to tariff customers is 1.71%, and an overall average increase of about 6-7% for the four special contract customers. Atch. 3, p. 2. The Company proposes that the Application be processed under Modified Procedure and requests the new PCA rates take effect on June 1, 2012.

THE APPLICATION

This year's PCA Application represents a rate increase as compared to last year's PCA rate decrease. The Company attributes the proposed PCA increase this year to several factors. First, the Company asserts that the "primary driver" of the increase is the cost to purchase power under its mandatory PURPA QF contracts. The Company states its PURPA cost is \$66.74 million greater than the base level amount of PURPA expenses approved in Order No. 31042. Wright Dir. at 9-10. Second, in the Company's last rate case, the Commission ordered that DSM costs be recovered in the PCA. Order No. 32426. The Company's Operating Plan anticipates that the DSM payments will be \$3.47 million greater than the DSM expenses

approved in the Company’s last rate case. *Id.* at 10. Finally, the recent revision to the Hoku-Idaho Power special contract reduces the amount of revenue from Hoku’s first block (take-or-pay) charge to \$6.77 million (as compared to last year’s projection at \$22.19 million), and reduced its load to zero. *Id.* at 8-9. These factors contributed to the proposed increase in the “projected” power costs component of the PCA mechanism.

The remaining two components to the PCA mechanism (the true-up and the reconciliation) result in rate credits. Thus, the credits from these two components offset the proposed increase in the projected power cost component. The Company proposes that the PCA rate be set at .3367 cents per kWh (.5099 + (.1340) + (.0392)).

RATE DESIGN

Earlier this year Idaho Power filed its revenue sharing application in Case No. IPC-E-12-13. In the Revenue Sharing Case, the Company proposed to credit certain customers with approximately \$27.1 million in sharing funds. The Company calculates that the impact of the Revenue Sharing Case will partially offset the PCA rate increase. Application at 6; Atch. 3, p. 2. The first table below shows just the proposed increases in the PCA rates for the major customer classes:

Table 1: The Proposed PCA Rates

| Customer Group (Schedules) | Current PCA Rate | Proposed PCA Rate | Percentage Increase |
|-----------------------------------|-------------------------|--------------------------|----------------------------|
| Residential (1) | .0289¢/kWh | 0.3367¢/kWh | 3.79% |
| Small Commercial (7) | .0539¢/kWh | 0.3367¢/kWh | 2.73% |
| Large Commercial (9) | .0040¢/kWh | 0.3367¢/kWh | 5.912% |
| Industrial (19) | (.0137)¢/kWh | 0.3367¢/kWh | 8.29% |
| Irrigation (24) | .0114¢/kWh | 0.3367¢/kWh | 5.10% |

Source: Atch. 2; Atch. 3, p. 1.

Application at Atch. 3, p. 1; Exh. 2. The PCA rates for Idaho Power’s four special-contract customers (Micron, Simplot, the Department of Energy (INL), and Hoku) would also change. Under the Company’s proposal, the PCA rate for the four special-contract customers would increase to 0.3367¢ per kWh. *Id.*

The table below shows the proposed rates when the proposed PCA rate increase is combined with the revenue sharing credit.

Table 2: Combined PCA and Revenue Sharing Rates

| Customer Group (Schedules) | Proposed Combined PCA/Sharing Rate | Percentage Change |
|-----------------------------------|---|--------------------------|
| Residential (1) | .0793¢/kWh | .62% |
| Small Commercial (7) | .0094¢/kWh | (0.43)% |
| Large Commercial (9) | .1492¢/kWh | 2.66% |
| Industrial (19) | .1986¢/kWh | 5.03% |
| Irrigation (24) | .1295¢/kWh | 1.85% |

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

Under the combined rates, each of the four special contract customers will receive a monthly flat credit for 12 months: Micron –\$46,803; Simplot – \$18,362; DOE (INL) – \$22,906; and Hoku – \$7,685. Atch. 2, p. 3.

PROPOSED SCHEDULING

Commission Rule 127 provides that the Commission will determine whether the Staff should a conduct a public workshop “[w]hen a public utility files an application to increase any rate. . . .” IDAPA 31.01.01.127. In this particular case, Idaho Power has proposed a rate increase. However, Staff does not believe a public workshop is warranted because of the proposed time line and the opportunity to provide comments.

The new PCA rate is normally effective on June 1 of every year. As in past years, the Company has requested that its PCA Application be processed under Modified Procedure. Staff concurs in the proposed effective date and in the use of Modified Procedure. Given the existing demands upon Staff, we recommend that comments in this case be due no later than May 15, 2012, and reply comments (if any) be due on May 17, 2012.

COMMISSION DECISION

Does the Commission wish to process Idaho Power’s PCA Application via Modified Procedure?

If yes, does the Commission wish to set comment dates of May 15 and reply comments (if any) due May 17?



Don Howell
Deputy Attorney General

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