IDAHO POWER®
An IDACORP Company

RECEIVED
2013 MAY 21 PM 4:38
IDAHO PUBLIC
UTILITIES COMMISSION

LISA D. NORDSTROM
Lead Counsel
lnordstrom@idahopower.com

May 21, 2013

VIA HAND DELIVERY

Jean D. Jewell, Secretary
Idaho Public Utilities Commission
472 West Washington Street
Boise, Idaho 83702

Re: Case No. IPC-E-13-10
2013-2014 Power Cost Adjustment ("PCA") – Idaho Power Company's Reply Comments

Dear Ms. Jewell:

Enclosed for filing in the above matter are an original and seven (7) copies of Idaho Power Company's Reply Comments.

Very truly yours,

Lisa D. Nordstrom

Lisa D. Nordstrom

LDN:csb
Enclosures

1221 W. Idaho St. (83702)
P.O. Box 70
Boise, ID 83707

LISA D. NORDSTROM (ISB No. 5733)
JULIA A. HILTON (ISB No. 7740)
Idaho Power Company
1221 West Idaho Street (83702)
P.O. Box 70
Boise, Idaho 83707
Telephone: (208) 388-5825
Facsimile: (208) 388-6936
lnordstrom@idahopower.com
jhilton@idahopower.com

Attorneys for Idaho Power Company

RECEIVED
2013 MAY 21 PM 4:39
IDAHO PUBLIC
UTILITIES COMMISSION

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, 2013 THROUGH MAY 31, 2014	)	CASE NO. IPC-E-13-10 IDAHO POWER COMPANY'S REPLY COMMENTS

Idaho Power Company ("Idaho Power" or "Company") respectfully submits the following Reply Comments in response to the Comments filed by the Idaho Public Utilities Commission Staff ("Staff"), the Industrial Customers of Idaho Power ("ICIP") and the U.S. Department of Energy ("DOE") on May 17, 2013, as well as the Idaho Public Utilities Commission's ("Commission") invitation to comment on the continued inclusion of third-party transmission expenses in the Power Cost Adjustment ("PCA").

I. PCA MITIGATION

On April 15, 2013, the Company filed its annual PCA application requesting an increase of $140.4 million for the 2013/2014 PCA year. Due to the large PCA for 2013/2014, the Company proposed a mitigation alternative to collect $87.9 million in

2013/2014 and defer $52.5 million to the next PCA year. Staff proposes a mitigation option to limit this year's PCA increase to $71.7 million, an average increase of 7.84 percent. Under Staff's proposal, the unrecovered balance ($68.7 million) would be carried forward for recovery in the 2014/2015 PCA year. The Staff estimates that with carrying charges this would result in comparable revenue collection in each year. The Staff's PCA rate mitigation proposal effectively defers $16.2 million more than the Company's PCA rate mitigation option to defer $52.5 million for collection next year.

ICIP and DOE propose a mitigation option to spread the recovery of this year's PCA over a three-year period with the stated objective of keeping the percentage increase experienced by any customer class below 10 percent. ICIP states that its PCA rate mitigation proposal allows for current PCA recovery of $51.9 million and would defer approximately $88.5 million of this year's PCA increase for collection over the following two PCA years. The ICIP proposal would defer recovery of $36.0 million above the Company's PCA rate mitigation proposal. DOE does not recommend specific dollar amounts for recovery or deferral. Table 1 below presents each party's mitigation recommendation as described above.

TABLE 1

2013/2014 PCA

($ millions)	2013/2014 Collection	Deferred Collection
Standard PCA Treatment	$140.4	$0.0
Company's Rate Mitigation Alternative	$87.9	$52.5
Staff Mitigation Proposal	$71.7	$68.7
ICIP	$51.9	$88.5
DOE	unspecified	unspecified

A. The PCA Rate Mitigation Proposals Presented by the Staff, ICIP, and DOE All Increase the Risk of Compounding or "Pancaking" of Rate Increases in the Future.

The Company acknowledges that each PCA rate mitigation proposal presented in this case, including its own, suggests deviation from the PCA standard of single year recovery based upon discretion guided by each respective party's overall objectives. However, each rate mitigation proposal carries with it an associated level of risk that deferred amounts will compound with a subsequent year's increase to create rate pancaking. Idaho Power's PCA rate mitigation option would result in the lowest amount of deferred cost recovery of any of the mitigation options presented to the Commission and therefore has lower rate pancaking risk relative to the other options.

As described in the Direct Testimony of Timothy E. Tatum, the Company was well aware of the Commission's long-standing risk aversion to pancaking as it developed its rate mitigation alternative. While the Company's rate mitigation alternative included some level of discretion, its development began with a logical basis. As described by Mr. Tatum, the Company first sought to limit mitigation adjustments to only the forecast component of the PCA. This goal was premised on the Company's belief that the risk of rate pancaking is reduced when PCA amounts related to past events and/or previously incurred costs are passed on to customers through a single rate adjustment and not deferred to a subsequent period. Ultimately, the Company's final mitigation option included deferred recovery of $42.5 million related to the PCA forecast and $10 million related to previously incurred, known costs.

Alternatively, the Staff's and ICIP's proposals would defer an additional $16.2 million and $36.0 million, respectively, of known, previously incurred costs. When one considers that the expiration of last year's revenue sharing credit and last year's true-up credit amount to a year-over-year change of approximately $43.4 million, ICIP's rate mitigation would have the Company collect only $8.5 million ($51.9 million - $43.4 million = $8.5 million) this year associated with the 2013/2014 PCA. Table 2 below presents the mitigation proposals removing the increase associated with the expiration of the credits.

TABLE 2

2013/2014 PCA Removing the Increase Related to Credit Expiration

($ millions)	2013/2014 Collection	Deferred Collection
Standard PCA Treatment	$97.0	$0.0
Company's Rate Mitigation Alternative	$44.5	$52.5
Staff Mitigation Proposal	$28.3	$68.7
ICIP	$8.5	$88.5
DOE	n/a	n/a

In effect, these proposals would postpone the recovery of significantly more of the known historical costs associated with last year's PCA year to the 2014/2015 PCA year and possibly beyond. In other words, between $16.2 million and $36.0 million of known deviations from last year's forecast would be combined with the power supply costs as they deviate from this year's forecast, amplifying the potential rate pancaking effect the Commission has historically sought to avoid.

B. <u>Streamflow Conditions Have Further Deteriorated Since the Company's March 2013 Operating Plan</u>.

The Company's March Operating Plan included an estimate of 3.6 million acre-feet of water flows into Brownlee Reservoir in Hells Canyon during the run-off season (April-July). Continued dryer than normal weather this spring has driven current projections downward to 2.7 million acre-feet for the same period—ranking in the bottom 10 percent of April through July volumes since 1960. Idaho experienced the fifth-lowest precipitation in 119 years during the key January-March period according to the National Climate Data Center. Based on records from 1960-2012, the average flow into Brownlee Reservoir during the month of April is 28,457 cubic feet per second ("cfs"). During April of 2013, the average flow into Brownlee Reservoir was just 11,092 cfs, or 39 percent of average.

As the Commission considers mitigation options for this year's PCA, the Company believes that it is important for the Commission to factor in the continuing deterioration of the Lower Snake River flows. In light of the current streamflow expectations, the Company believes that any mitigation option that defers more costs than the Company's PCA rate mitigation alternative brings with it too much risk. While it is becoming increasingly less likely that next year's April through July streamflow conditions will be worse than the 2013 condition, it is likely that the Company will experience higher than forecast power costs in the 2013/2014 PCA year associated with lower than forecasted hydro production. This represents a foreshadowing of the rate pancaking risk that already exists today as the Commission considers these mitigation options.

C. <u>The PCA Rate Mitigation Proposals Presented by the Staff, ICIP, and DOE Will Have a Negative Financial Impact on the Company</u>.

As described by Mr. Tatum in his testimony, the Company believes that it would be able to withstand the cash flow impact of the Company-proposed PCA mitigation option without suffering material financial harm. ICIP argues that based on Idaho Power's recent earnings performance, the Company can withstand additional cost deferrals beyond that offered in its mitigation alternative. However, ICIP fails to recognize that the Company's ability to defer costs for future recovery is not enabled by its earnings performance, but rather is access to cash to cover the costs during the deferral period. The $52.5 million in deferred recovery offered by Idaho Power represents the upper limit of what the Company can comfortably withstand from a cash flow perspective. The Company is also concerned that the PCA rate mitigation proposals presented by the Staff, ICIP, and DOE could be viewed by the investment community as creating recovery lag in an otherwise highly mechanistic and reliable cost recovery mechanism. Therefore, the Company's mitigation alternative should be viewed as the maximum level of cost deferral for consideration and not the minimum upon which more aggressive cost deferral strategies can be built.

II. TRANSMISSION EXPENSES

On page 5 of its Notice of Application, Modified Procedure, and Public Workshops issued in Order No. 32796, the Commission invited the parties to comment "on the issue of whether Idaho Power's PCA calculation should continue to include transmission expenses only or whether both transmission revenues and transmission expenses should be included."

A. ICIP Incorrectly Claims There Is a Mismatch by Including Third-Party Transmission Expense and Excluding Third-Party Transmission Revenues from the PCA.

When Idaho Power purchases transmission wheeling from other companies, the purpose of the transaction is to either bring purchased power into its system for service to its customers or to allow for surplus sales to be made to other utilities. Third-party transmission expenses (Federal Energy Regulatory Commission ("FERC") Account 565) have been included in the PCA since 2009 (Case No. IPC-E-09-11). The amount of transmission wheeling expense varies directly with the number of purchased power transactions (FERC Account 555) the Company makes in order to serve its load or surplus sales transactions (FERC Account 447), which becomes a customer credit in the PCA. In a contrasting manner, third-party transmission wheeling revenues (FERC Account 456) result when other utilities pay Idaho Power for the use of its transmission system to facilitate their power supply transactions. The amount of third-party transmission wheeling revenues received by the Company is independent of the power supply expenses incurred by the Company to provide service to its customers. Rather, expenses associated with these third-party transmission revenues are captured in other accounts such as operations and maintenance expense, depreciation expense, etc. Because there is no direct relationship between third-party transmission wheeling revenues and Idaho Power's power supply expenses, the Company does not believe there is a "mismatch" of the PCA components.

Third-party transmission wheeling revenues (FERC Account 456) are incidental revenues billed according to the Company's Open Access Transmission Tariff ("OATT") rates when a third-party wishes to move power across the Company's transmission system and capacity is available to do so. OATT rates are intended to recover the cost of owning, operating, and maintaining Idaho Power's transmission system. OATT rates are not intended to recover third-party transmission costs. In fact, the transmission costs recovered under the Company's OATT rates explicitly <u>exclude</u> third-party transmission expenses because they are not related to Idaho Power's transmission system. Idaho Power OATT, Attachment H Section 2.2.24. Because the costs that transmission wheeling revenues are intended to recover are **not** power supply costs and are **not** tracked through the PCA, tracking transmission wheeling revenues in the PCA would actually introduce a "mismatching" of costs and revenue that does not exist today.

B. Only Avista Corporation's ("Avista") PCA Includes Transmission Revenue Differences.

After discussions with Commission Staff, it was confirmed that Rocky Mountain Power's Energy Cost Adjustment Mechanism (ECAM) does not currently include tracking of transmission revenue differences. Only Avista includes transmission revenue differences in its PCA. The inclusion of transmission revenues in Avista's PCA came as part of a settlement stipulation filed in its 2009 general rate case. The Company does not find this argument to be the appropriate rationale for including transmission revenues in Idaho Power's PCA.

C. Including Transmission Revenues in the PCA Would be Problematic.

Although the Company strongly disagrees with the inclusion of third-party wheeling revenue in Idaho Power's PCA as it creates a mismatching of costs and revenues, it should be noted that if the Commission were to direct the Company to include transmission wheeling revenues in its PCA, such tracking would be problematic because the Company's currently approved revenue requirement does not include an explicit component related to transmission wheeling revenue. That is, the Company settled its last general rate case with an agreed-upon revenue increase that did not specify a base level amount of transmission wheeling revenue or costs related to those revenues from which deviations could be tracked.

Therefore, if the Commission were to order the Company to include third-party transmission wheeling in the PCA, not only would that introduce a mismatch that does not currently exist but a base level of third-party transmission revenues would need to be established in order to track the deviations.

III. CONCLUSION

The Company believes that the Commission should reject the PCA rate mitigation proposals presented by the Staff, ICIP, and DOE because all of these alternative rate mitigation options would further increase the risk of compounding or "pancaking" of rate increases in the future, and if implemented, could have a negative financial impact on the Company. Furthermore, the Company strongly disagrees with the inclusion of third-party wheeling revenue in the PCA as it creates a mismatching of costs and revenues.

Idaho Power respectfully requests that the Commission issue an Order: (1) approving an update to the Schedule 55 quantification of the 2013 PCA containing an increase to the Company's PCA rate currently in effect; (2) approving the Company's determination and proposed return of 2012 revenue sharing amounts to customers; and (3) implementing the Schedule 55 PCA rates as shown in Attachment 1 or in the alternative Attachment 2 to Idaho Power's Application effective June 1, 2013, through May 31, 2014.

DATED at Boise, Idaho, this 21st day of May 2013.

Lisa D. Nordstrom

LISA D. NORDSTROM
Attorney for Idaho Power Company

CERTIFICATE OF SERVICE

I HEREBY CERTIFY that on this 21st day of May 2013 I served a true and correct copy of IDAHO POWER COMPANY'S REPLY COMMENTS upon the following named parties by the method indicated below, and addressed to the following:

Commission Staff Karl T. Klein Deputy Attorney General Idaho Public Utilities Commission 472 West Washington (83702) P.O. Box 83720 Boise, Idaho 83720-0074	_X_ Hand Delivered ____U.S. Mail ____Overnight Mail ____FAX _X_ Email karl.klein@puc.idaho.gov
Industrial Customers of Idaho Power Peter J. Richardson Gregory M. Adams RICHARDSON & O'LEARY, PLLC 515 North 27th Street (83702) P.O. Box 7218 Boise, Idaho 83707	____Hand Delivered _X_ U.S. Mail ____Overnight Mail ____FAX _X_ Email peter@richardsonandoleary.com greg@richardsonandoleary.com
Dr. Don Reading 6070 Hill Road Boise, Idaho 83703	____Hand Delivered _X_ U.S. Mail ____Overnight Mail ____FAX _X_ Email dreading@mindspring.com

Christa Bearry

Christa Bearry, Legal Assistant